

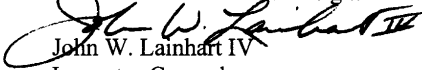
John W. Lainhart IV
Inspector General

Office of Inspector General
U.S. House of Representatives
Washington, DC 20515-9990

MEMORANDUM

TO: The Honorable Bill Thomas, Chairman
Committee on House Oversight

The Honorable Sam Gejdenson, Ranking Minority Member
Committee on House Oversight

FROM: 
John W. Lainhart IV
Inspector General

DATE: November 4, 1998

SUBJECT: Final Report - Audit Of The Financial Statements For The Year Ended
December 31, 1997 (Report No. 98-HOC-11)

Attached is our final report presenting the results of PricewaterhouseCoopers LLP's audit of the House of Representatives' (House) consolidating financial statements for the year ended December 31, 1997. The report includes the House's *Financial Statements, Notes to the Financial Statements, Supplemental Schedules, Management Report on Internal Controls, and CAO Response to the 1997 Financial Statement Audit Report*. Also included is the *Report of Independent Accountants* encompassing PricewaterhouseCoopers' opinion on the financial statements, *Report of Independent Accountants on Compliance With Laws and Regulations*, and *Report of Independent Accountants on Management's Assertions about Internal Controls*.

In accordance with applicable auditing standards, PricewaterhouseCoopers took into consideration in this report any events which would have required an adjustment to the House's *Financial Statements, Notes to the Financial Statement, or Supplemental Schedules* up to the issuance date of this report.

Objectives And Scope Of Audit

The objectives of this audit were to assess whether the House's consolidating financial statements present fairly, as of December 31, 1997, the overall financial position, results of operations, and cash flows in accordance with generally accepted accounting principles. This report also presents findings on the House's compliance with applicable laws and regulations, and the fairness of management's assertion on whether the House's internal control structure provides reasonable assurance of achieving generally accepted control objectives. In addition, the report discloses problems associated with the House's financial management activities and includes recommendations to improve those activities.

This audit was part of our 1998 Annual Audit Plan that was approved by the Committee on House Oversight on February 4, 1998. We approved the scope of the audit work, monitored its progress at key points, and performed other procedures we deemed necessary. This audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, except for the qualifications as discussed in the *Report of Independent Accountants*.

Results Of PricewaterhouseCoopers' Audit

The House has made significant progress in improving its financial management and operations since last year's financial statements audit. Most importantly, the House is no longer dependent upon contractors to compile its financial statements. For the year ended December 31, 1997, the House compiled its own consolidating financial statements. In addition, of the 100 financial-related recommendations contained in 14 prior audit reports, the House closed (i.e., fully implemented or otherwise resolved) 61 recommendations and partially implemented 39 recommendations. Also, the 13 weaknesses cited in last year's report were reduced to 8 weaknesses in this year's report.

The House's inadequate systems and processes for tracking the cost and net book value of Property and Equipment was the only deficiency which precluded PricewaterhouseCoopers from expressing an "unqualified opinion" on the House's financial statements. In preparing the financial statements, the House approximated the net book value of its Property and Equipment balances by adding estimates of acquisitions for the year to beginning balances and applying depreciation percentages. As a result of using this approximation method, the House's Property and Equipment balances are not supported by records of the physical property on hand and may be misstated due to the approximate nature of the method, including the lack of a comprehensive means of recording property disposals in the financial statements. However, the House is in the process of procuring a new Fixed Assets/Inventory Management System which should, when fully implemented, substantially improve the tracking of cost and net book value of Property and Equipment. In addition, effective January 1, 1998 the House changed its capitalization threshold from \$5,000 to \$25,000 for equipment and computer hardware and from \$500 to \$10,000 for computer software. This new policy should make it easier for the House to apply adequate internal control from a financial reporting standpoint in future years.

In the *Report of Independent Accountants on Compliance with Laws and Regulations*, PricewaterhouseCoopers identifies only one instance of significant noncompliance. Specifically, the report discloses instances where certain Members overspent their Members' Representational Allowances (MRAs). The MRAs are used to pay for staff salaries, official expenses, and official mail. The *Members' Congressional Handbook* states that Members are personally responsible for the amounts by which they overspend their MRAs.

The *Report of Independent Accountants on Management's Assertions about Internal Controls* identifies eight internal control weaknesses—three material weaknesses and five reportable conditions. This report includes 8 of the 13 weaknesses previously reported for the year ended December 31, 1997. Two material weaknesses were also identified in last year's report and are still considered material weaknesses, because steps taken to correct them are only partially complete. In addition, the obsolete payroll systems were noted as a reportable condition in last

year's report. This year's report upgraded that weakness to a material weakness, because both payroll systems, Members and staff, are not Year 2000 compliant. A Request For Quotes (RFQ), to implement a new payroll/human resources system, is currently being developed to replace both of the existing systems, with plans to award the contract during November 1998. However, the Chief Administrative Officer (CAO) acknowledged that this new system will not be implemented prior to December 31, 1999. The remaining two material weaknesses in this year's *Report of Independent Accountants on Management's Assertions about Internal Controls* relate to the following areas:

- The House lacked sufficient information with which to manage and maintain accountability over its property and equipment (current and prior material weakness).
- Poor controls over computers and data exposed the House to the risk of unauthorized transactions, incorrect data, misuse of assets, and loss of data and programs (current and prior material weakness).

These weaknesses and other deficiencies are discussed in greater detail in sections of this audit report entitled *Report of Independent Accountants*, *Report of Independent Accountants on Compliance with Laws and Regulations*, and *Report of Independent Accountants on Management's Assertion about Internal Controls*.

Prior Audit Coverage

Audit Of Financial Statements For The Year Ended December 31, 1996 (Report No. 97-HOC-14, dated December 1, 1997) identified 5 material weaknesses and 8 reportable conditions that could adversely affect the House's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The status of the recommendations in Report No. 97-HOC-14 is addressed in the section of this audit report entitled *Report of Independent Accountants on Management's Assertion about Internal Controls*.

House Needs To Refocus It's Efforts To Meet The Year 2000 (Report No. 97-CAO-13, dated September 29, 1997) identified opportunities for improving the House's Year 2000 management controls involving planning, budgeting, internal and external coordination issues, procurement, and conversion practices. The status of the recommendations affecting financial operations in Report No. 97-CAO-13 is addressed in the section of this audit report entitled *Report of Independent Accountants on Management's Assertion about Internal Controls*.

Internal Controls Over Equipment Inventory Systems Can Be Improved (Report No. 97-CAO-11, dated July 28, 1997) identified internal control weaknesses over the House's equipment inventory systems. The status of the recommendations affecting financial operations in Report No. 97-CAO-11 is addressed in the section of this audit report entitled *Report of Independent Accountants on Management's Assertion about Internal Controls*.

Direct Access Storage Device Management Can Be Improved (Report No. 97-CAO-10, dated May 8, 1997) identified opportunities for improvement of the management of the direct access

storage device environment. The status of the recommendations affecting financial operations in Report No. 97-CAO-10 is addressed in the section of this audit report entitled *Report of Independent Accountants on Management's Assertion about Internal Controls*.

HIR Management Practices Undermine The House's Ability To Keep Pace With Technological Changes (Report No. 97-CAO-09, dated May 8, 1997) identified serious problems with regard to the management process HIR-wide; planning and budgeting; policies, standards, procedures, and guidelines; and staffing. The status of the recommendations affecting financial operations in Report No. 97-CAO-09 is addressed in the section of this audit report entitled *Report of Independent Accountants on Management's Assertion about Internal Controls*.

Improvements Are Needed In The Management And Operations Of The Office Of The Chief Administrative Officer (Report No. 96-CAO-15, dated December 31, 1996) identified management weaknesses adversely affecting system development and Year 2000 projects related to financial operations. The status of the recommendations affecting financial operations in Report No. 96-CAO-15 is addressed in the section of this audit report entitled *Report of Independent Accountants on Management's Assertion about Internal Controls*.

Audit Of Financial Statements For The Year Ended December 31, 1995 (Report No. 96-HOC-05, dated July 30, 1996) identified 4 material weaknesses and 10 reportable conditions that could adversely affect the House's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The status of the recommendations in Report No. 95-HOC-05 is addressed in the section of this audit report entitled *Report of Independent Accountants on Management's Assertion about Internal Controls*.

Followup On Outstanding Issues From The Comprehensive House Audit (Report No. 96-HOC-01, dated January 2, 1996) identified internal control weaknesses related to deficiencies found in the comprehensive House audit, such as duplicate travel-related payments, uncollected catering receivables, overdue accounts and personal usage related to charge card activity, Member overspending, and salary overpayments. The status of the recommendations affecting financial operations in Report No. 96-HOC-01 is addressed in the section of this audit report entitled *Report of Independent Accountants on Management's Assertion about Internal Controls*.

Audit Of Financial Statements For The 15-Month Period Ended December 31, 1994 (Report No. 95-HOC-22, dated July 18, 1995) identified 14 material weaknesses that could adversely affect the House's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The status of the recommendations in Report No. 95-HOC-22 is addressed in the section of this audit report entitled *Report of Independent Accountants on Management's Assertion about Internal Controls*.

The House Needs To Follow A Structured Approach For Managing And Controlling System Development Life Cycle Activities Of Its Computer Systems (Report No. 95-CAO-20, dated July 18, 1995) identified internal control weaknesses related to the House's system development and maintenance activities. The status of the recommendations affecting financial operations in

Report No. 95-CAO-20 is addressed in the section of this audit report entitled *Report of Independent Accountants on Management's Assertion about Internal Controls*.

The Management And Control Of The House's Information Systems Operations Should Be Improved To Better Meet Members' Needs (Report No. 95-CAO-19, dated July 18, 1995) identified internal control weaknesses concerning top management oversight, organization structure, training, and technology management related to the House's information systems operations. The status of the recommendations affecting financial operations in Report No. 95-CAO-19 is addressed in the section of this audit report entitled *Report of Independent Accountants on Management's Assertion about Internal Controls*.

House Computer Systems Were Vulnerable To Unauthorized Access, Modification, And Destruction (Report No. 95-CAO-18, dated July 18, 1995) identified internal control weaknesses related to the integrity, confidentiality, and availability of information and systems. The status of the recommendations affecting financial operations in Report No. 95-CAO-18 is addressed in the section of this audit report entitled *Report of Independent Accountants on Management's Assertion about Internal Controls*.

Split Responsibility For Equipment Leasing And Maintenance Cost The House Almost \$2.0 Million Annually In Payments For Outdated Equipment (Report No. 95-CAO-17, dated July 18, 1995) identified internal control weaknesses related to the management, maintenance, and inventory of leases of office and computer equipment. The status of the recommendations affecting financial operations in Report No. 95-CAO-17 is addressed in the section of this audit report entitled *Report of Independent Accountants on Management's Assertion about Internal Controls*.

Problems Plagued The House's Financial Operations (Report No. 95-CAO-16, dated July 18, 1995) identified internal control weaknesses related to accounting policies, methods, and financial management systems. The status of the recommendations in Report No. 95-CAO-16 is addressed in the section of this audit report entitled *Report of Independent Accountants on Management's Assertion about Internal Controls*.

Recommendations

This report contains 6 new recommendations. In addition, the audit followed up on 100 prior audit recommendations. The status of the prior audit recommendations is listed below:

• Closed	61
• Substantial Progress	12
• Some Progress	21
• Limited Progress	6
• Open	<u>0</u>
Total	100

House Management Comments

The CAO formally responded to our draft report on August 18, 1998. In his response, which is included in its entirety as an appendix to this report, the CAO fully concurred with the findings, conclusions, and recommendations contained herein.

Office of Inspector General Comments

Management's completed, ongoing, and planned actions are responsive and, when fully implemented, should satisfy the intent of our recommendations. In accordance with the *Government Auditing Standards*, we will continue to track the implementation of these corrective actions.

Attachments

cc: Speaker of the House
Majority Leader of the House
Minority Leader of the House
Members, Committee on House Oversight

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Management Report on
Internal Controls
CAO Response to the 1997
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Report of Independent Accountants

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Report of Independent Accountants

To the Inspector General
U.S. House of Representatives

We have audited the Consolidating Statement of Financial Position of the U.S. House of Representatives (House) as of December 31, 1997 and 1996, and the related Consolidating Statements of Operations and Cash Flows for the years then ended. These financial statements are the responsibility of the Members and administrative management of the House. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as explained in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidating financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidating financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The House's financial statements show Property and Equipment balances of \$ 49,791,157 and \$ 42,998,455, as restated, at December 31, 1997 and 1996, and related Depreciation and Amortization expense of \$ 26,112,127 and \$ 21,781,567, as restated, respectively. The House does not have adequate systems and processes to track the cost and net book value of Property and Equipment on hand, or purchases, disposals and transfers. In preparing these financial statements the House approximated the net book value of its Property and Equipment by adding estimates of acquisitions for the year to beginning balances, and applying depreciation percentages. As a result of using this approximation method, the House's Property and Equipment balances are not supported by records of the physical property on hand and may be misstated due to the approximate nature of the method, including the lack of a comprehensive means of recording property disposals in the financial statements.

In our opinion, except for the effects of adjustments to the consolidating financial statements, if any, that might have been determined to be necessary had we been able to examine sufficient evidence regarding the House's accounts for Property and Equipment as of December 31, 1997 and 1996, and related expenses for the years then ended, the consolidating financial statements referred to above present fairly, in all material



respects, the financial position of the U.S. House of Representatives as of December 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the consolidating financial statements taken as a whole. The supplemental schedules are presented for purposes of additional analysis of the consolidating financial statements rather than to present the financial position, results of operations, and cash flows of individual entities within the House. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the consolidating financial statements and, in our opinion, except for the reasons stated in paragraph three of this report, such information is fairly stated in all material respects, in relation to the consolidating financial statements taken as a whole.

In accordance with *Governmental Auditing Standards*, we have issued a report dated July 21, 1998 on our consideration of the House's internal controls and a report dated July 21, 1998 on its compliance with applicable laws, rules, and regulations.

PricewaterhouseCoopers LLP

Arlington, Virginia
July 21, 1998

Financial Statements

U.S. House of Representatives
Consolidating Statement of Financial Position
As of December 31, 1997

	<u>Members</u>	<u>Committees</u>	<u>Leadership Offices</u>
ASSETS			
Fund Balance with the U.S. Treasury (Note 4)	\$ 0	\$ 0	\$ 0
Cash (Note 4)	0	297	0
Fund Balance with U.S. Treasury and Cash	0	297	0
Accounts Receivable	0	0	0
Interoffice Receivable	0	0	0
Appropriations Receivable (Note 2J)	17,651,182	1,937,565	224,439
Advances and Prepayments	1,524,134	248,109	38,897
Inventory	0	0	0
Property and Equipment, Net (Note 5)	22,128,877	5,858,377	1,361,510
Total Assets	<u>\$ 41,304,193</u>	<u>\$ 8,044,348</u>	<u>\$ 1,624,846</u>
LIABILITIES AND NET POSITION			
Accounts Payable (Note 7)	\$ 10,997,259	\$ 1,649,025	\$ 123,054
Interoffice Payable	8,178,057	536,946	140,282
Appropriations Payable (Note 2J)	0	0	0
Capital Lease Liabilities (Note 6)	0	0	0
Intragovernmental Liabilities	0	0	0
Accrued Leave and Payroll (Note 8)	6,148,130	0	0
Unfunded Workers' Comp. Actuarial Liability (Note 9)	0	0	0
Total Liabilities	<u>25,323,446</u>	<u>2,185,971</u>	<u>263,336</u>
Unexpended Appropriations	0	0	0
Invested Capital	22,128,877	5,858,377	1,361,510
Future Funding Requirements	(6,148,130)	0	0
Total Net Position (Note 10)	<u>15,980,747</u>	<u>5,858,377</u>	<u>1,361,510</u>
Total Liabilities and Net Position	<u>\$ 41,304,193</u>	<u>\$ 8,044,348</u>	<u>\$ 1,624,846</u>

The accompanying notes are an integral part of the financial statements.

** Additional detail provided in the supplemental schedules.*

Officers and Legislative Offices*	Capitol Police and Other Joint Functions*	Eliminations (Note 1)	1997 Consolidated	1996 Restated (Note 1)
\$ 678,435,230	\$ 47,070,949	\$ 0	\$ 725,506,179	\$ 769,718,052
31,019	21,683	0	52,999	52,839
<u>678,466,249</u>	<u>47,092,632</u>	<u>0</u>	<u>725,559,178</u>	<u>769,770,891</u>
688,404	0	0	688,404	699,020
9,068,627	0	(9,068,627)	0	0
4,730,117	0	(24,543,303)	0	0
105,473	72,614	0	1,989,227	1,925,656
1,170,568	0	0	1,170,568	1,148,552
<u>18,891,353</u>	<u>1,551,040</u>	<u>0</u>	<u>49,791,157</u>	<u>42,998,455</u>
<u>\$ 713,120,791</u>	<u>\$ 48,716,286</u>	<u>\$ (33,611,930)</u>	<u>\$ 779,198,534</u>	<u>\$ 816,542,574</u>
\$ 14,778,836	\$ 1,579,428	\$ 0	\$ 29,127,602	\$ 46,701,704
147,650	65,692	(9,068,627)	0	0
24,543,303	0	(24,543,303)	0	0
1,531,029	0	0	1,531,029	1,353,954
0	0	0	0	22,560
1,983,834	2,199,919	0	10,331,883	9,380,583
<u>14,948,664</u>	<u>0</u>	<u>0</u>	<u>14,948,664</u>	<u>18,092,302</u>
<u>57,933,316</u>	<u>3,845,039</u>	<u>(33,611,930)</u>	<u>55,939,178</u>	<u>75,551,103</u>
653,589,081	45,520,126	0	699,109,207	725,671,303
20,061,921	1,551,040	0	50,961,725	44,147,007
<u>(18,463,527)</u>	<u>(2,199,919)</u>	<u>0</u>	<u>(26,811,576)</u>	<u>(28,826,839)</u>
<u>655,187,475</u>	<u>44,871,247</u>	<u>0</u>	<u>723,259,356</u>	<u>740,991,471</u>
<u>\$ 713,120,791</u>	<u>\$ 48,716,286</u>	<u>\$ (33,611,930)</u>	<u>\$ 779,198,534</u>	<u>\$ 816,542,574</u>

**U.S. House of Representatives
Consolidating Statement of Operations
For the Year Ended December 31, 1997**

	<u>Members</u>	<u>Committees</u>	<u>Leadership Offices</u>
REVENUE AND FINANCING SOURCES			
Revenue from Operations			
Sales of Goods	\$ 0	\$ 0	\$ 0
Sales of Services to Federal Agencies	0	0	0
Sales of Services to the Public	0	0	0
Interoffice Sales (Note 11)	<u>0</u>	<u>0</u>	<u>0</u>
Revenue from Operations	0	0	0
Financing Sources			
Appropriations to Cover Expenses	511,537,634	121,010,054	16,697,845
Imputed Financing Source (Note 12)	<u>68,319,401</u>	<u>17,686,802</u>	<u>2,278,497</u>
Total Revenue and Financing Sources	579,857,035	138,696,856	18,976,342
EXPENSES			
Personnel Compensation	317,886,919	82,299,270	10,607,503
Benefits (Note 12)	153,505,485	41,041,767	5,335,412
Postage and Delivery	21,640,362	108,425	42,556
Repairs and Maintenance	12,627,007	673,881	590,343
Depreciation and Amortization (Note 5)	12,496,205	2,895,150	672,944
Rent, Utilities, and Communications	16,319,167	15,037	87,326
Telecommunications	12,019,046	655,317	315,523
Supplies and Materials	5,819,690	872,808	367,061
Travel and Transportation	12,287,398	3,773,325	781,302
Contract, Consulting, and Other Services	2,150,959	5,761,012	12,490
Printing and Reproduction	9,143,286	62,100	34,224
Subscriptions and Publications	3,961,511	538,764	129,658
Cost of Goods Sold	0	0	0
Interest on Capital Leases (Note 6)	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenses	579,857,035	138,696,856	18,976,342
Excess (Deficiency) of Revenue and Financing Sources Over Expenses	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

** Additional detail provided in the supplemental schedules.*

Officers and Legislative Offices*	Capitol Police and Other Joint Functions *	Eliminations (Note 1)	1997 Consolidated	1996 Restated (Note 1)
\$ 3,101,803	\$ 0	\$ 0	\$ 3,101,803	\$ 2,876,633
2,803,638	0	0	2,803,638	3,899,343
742,335	47,280	0	789,615	730,285
<u>39,725,370</u>	<u>0</u>	<u>(39,725,370)</u>	<u>0</u>	<u>0</u>
46,373,146	47,280	(39,725,370)	6,695,056	7,506,261
103,140,654	45,114,381	0	797,500,568	771,725,244
<u>10,772,494</u>	<u>6,756,884</u>	<u>0</u>	<u>105,814,078</u>	<u>0</u>
160,286,294	51,918,545	(39,725,370)	910,009,702	779,231,505
50,488,538	32,306,785	0	493,589,015	479,411,003
24,930,251	15,490,096	0	240,303,011	131,042,691
391,534	9,912	0	22,192,789	25,691,489
41,256,775	219,384	(22,714,307)	32,653,083	32,498,674
9,312,228	735,600	0	26,112,127	21,781,567
1,545,152	4,491	(231,664)	17,739,509	16,633,134
12,108,971	170,921	(12,302,992)	12,966,786	11,338,958
2,970,319	896,199	0	10,926,077	11,327,961
172,806	602,564	0	17,617,395	15,184,065
11,433,528	1,323,918	(291,141)	20,390,766	18,669,186
21,677	17,445	(362,450)	8,916,282	8,198,136
214,167	141,230	0	4,985,330	4,828,609
5,348,158	0	(3,822,816)	1,525,342	2,456,323
92,190	0	0	92,190	169,709
<u>160,286,294</u>	<u>51,918,545</u>	<u>(39,725,370)</u>	<u>910,009,702</u>	<u>779,231,505</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

**U.S. House of Representatives
Consolidating Statement of Cash Flows
For the Year Ended December 31, 1997**

	Members	Committees	Leadership Offices
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (Deficiency) of Revenue and Financing Sources over Expenses	\$ 0	\$ 0	\$ 0
Adjustments affecting Cash Flow			
Appropriations to Cover Expenses	(511,537,634)	(121,010,054)	(16,697,845)
(Increase)/Decrease in Accounts, Interoffice, and Appropriations Receivable	5,819,761	2,438,191	711,672
(Increase)/Decrease in Advances and Prepayments	(226,452)	(36,758)	4,129
(Increase)/Decrease in Inventory	0	0	0
Increase/(Decrease) in Accounts, Interoffice, and Appropriations Payable	1,040,520	(2,281,810)	(702,933)
Increase/(Decrease) in Other Accrued Liabilities	(99,863)	0	0
Depreciation and Amortization	12,496,205	2,895,150	672,944
Net Cash Provided (Used) by Operating Activities	<u>(492,507,463)</u>	<u>(117,995,281)</u>	<u>(16,012,033)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property and Equipment, Net	<u>(15,291,427)</u>	<u>(3,987,829)</u>	<u>(507,720)</u>
Net Cash Provided (Used) by Investing Activities	<u>(15,291,427)</u>	<u>(3,987,829)</u>	<u>(507,720)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Appropriations Received (Note 10)	0	0	0
Funds Returned to the U.S. Treasury (Note10)	0	0	0
Appropriated Funds Allocated (Note10)	507,798,890	122,002,347	16,519,753
Principal Payment on Capital Lease Liabilities	0	<u>(19,440)</u>	0
Net Cash Provided (Used) by Financing Activities	<u>507,798,890</u>	<u>121,982,907</u>	<u>16,519,753</u>
Net Cash Provided (Used) by Operating, Investing, and Financing Activities	0	(203)	0
Fund Balance with U.S. Treasury and Cash, Beginning	0	500	0
Fund Balance with U.S. Treasury and Cash, Ending	<u>\$ 0</u>	<u>\$ 297</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

** Additional detail provided in the supplemental schedules.*

Officers and Legislative Offices*	Capitol Police and Other Joint Functions *	Eliminations (Note 1)	1997 Consolidated	1996 Restated (Note 1)
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
(103,140,654)	(45,114,381)	0	(797,500,568)	(771,725,244)
12,358,279	0	(21,317,286)	10,617	871,543
190,078	5,432	0	(63,571)	2,358,842
(22,016)	0	0	(22,016)	(153,975)
(37,588,346)	641,181	21,317,286	(17,574,102)	(17,320,935)
(3,298,620)	1,183,586	0	(2,214,897)	(1,295,289)
9,312,228	735,600	0	26,112,127	21,781,567
(122,189,051)	(42,548,582)	0	(791,252,410)	(765,483,491)
(10,961,984)	(957,570)	0	(31,706,530)	(27,752,576)
(10,961,984)	(957,570)	0	(31,706,530)	(27,752,576)
797,049,175	48,155,500	0	845,204,675	806,743,600
(60,697,275)	(4,738,949)	0	(65,436,224)	(12,979,150)
(646,583,091)	262,101	0	0	0
(1,001,782)	0	0	(1,021,222)	(514,980)
88,767,027	43,678,652	0	778,747,229	793,249,470
(44,384,008)	172,500	0	(44,211,711)	13,403
722,850,257	46,920,132	0	769,770,889	769,757,488
<u>\$ 678,466,249</u>	<u>\$ 47,092,632</u>	<u>\$ 0</u>	<u>\$ 725,559,178</u>	<u>\$ 769,770,891</u>

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Notes to the Financial Statements

NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY

The U.S. House of Representatives (House) is one of two separate legislative chambers that comprise the Congress of the United States. The other is the U.S. Senate (Senate). All lawmaking powers of the Federal government are given to the Congress under Article I of the Constitution of the United States. The House and Senate jointly agree on a budget for the Legislative Branch and submit it to the President of the United States. The Members of the House serve two-year terms of office, which coincide with the sequential numbering of the entire Congress. These financial statements cover the years ended December 31, 1997, and 1996, as restated, and reflect the financial activities of the first session of the 105th Congress and the second session of the 104th Congress, respectively.

To help carry out its constitutional duties, the House creates committees of Members and assigns them responsibility for gathering information, identifying policy problems, proposing solutions, and reporting bills to the full chamber for consideration. The House appoints unelected officers to administer both legislative and non-legislative functions which support the institution and its Members in carrying out its legislative duties. The consolidating comparative financial statements of the House provide financial information on the activities of all entities which are subject to the authority vested in the House by the U.S. Constitution, public laws, and rules and regulations adopted by the membership of the House. These financial statements reflect the organizational structure of the House under the 105th Congress. The following is a summary of the entity groupings as they appear in the 1997 consolidating financial statements:

House **Members** are elected from congressional districts of approximately equal population. The financial information in columns entitled "Members" aggregates the accounts and financial transactions of the Members' district and Washington, D.C. offices, and includes 435 Representatives; 4 Delegates, one each, from the District of Columbia, Guam, Virgin Islands, and American Samoa; and one Resident Commissioner from Puerto Rico. Member transactions primarily comprise expenses for employee and Member salaries, district office space rental and travel, telecommunications, and postage costs, including Franking costs.

The **Committees** column aggregates accounts and financial transactions of the Standing, Select or Special Committees of the House's 105th Congress. Committees are organized at the beginning of each Congress according to their jurisdictional boundaries incorporated in the Rules of the House. The Standing and Select Committees of the House, under the 105th Congress are listed below.

Committee on Agriculture
Committee on Appropriations
Committee on Banking and Financial Services
Committee on the Budget

Committee on Commerce
Committee on Education and the Workforce
Committee on Government Reform and Oversight
Committee on House Oversight
Committee on International Relations
Committee on the Judiciary
Committee on National Security
Committee on Resources
Committee on Rules
Committee on Science
Committee on Small Business
Committee on Standards of Official Conduct
Committee on Transportation and Infrastructure
Committee on Veterans' Affairs
Committee on Ways and Means
Permanent Select Committee on Intelligence

The House **Leadership Offices** column includes the financial activity of the:

Speaker of the House
Majority and Minority Leaders
Majority and Minority Whips
Party Caucus or Conference, which consist of representatives of the same political party

The **Officers and Legislative Offices** column aggregates the financial information of all legislative support and administrative functions provided to Members, committees, and leadership offices, including:

Clerk of the House
Sergeant at Arms
Chaplain
Chief Administrative Officer
Parliamentarian
Office of the Legislative Counsel
Office of the Law Revision Counsel
Office of Inspector General

The **Capitol Police and Other Joint Functions** column includes joint activities of the House and Senate to the extent that these functions are funded in whole or in part by the House. The House administrative management does not exert direct control over the expenditures of these functions. The joint functions in these financial statements include:

Attending Physician
Capitol Police
Joint Committee on Taxation (which has members from both the House and the Senate)

The **Eliminations** column on the consolidating financial statements is used to negate the effect of financial transactions between House entities. Inter-entity transactions, such as items sold by one House entity to another, are misleading when reporting consolidating House financial information

Restatements- Certain 1996 balances have been restated to capture additional information which resulted primarily from adjustments to capital lease depreciation, unemployment compensation, and annual leave expense.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Consolidation

The financial statements include the accounts and significant activities of the House. The consolidating financial statements do not include legislative agencies that support the House and that receive separate appropriations. These agencies include the:

Library of Congress
Congressional Budget Office
General Accounting Office
Government Printing Office
U.S. Botanic Garden
Architect of the Capitol

Functions jointly shared between the House and the Senate are included in the consolidating financial statements to the extent their operations are funded by House appropriations. These consist of the:

Attending Physician
Capitol Police
Joint Committee on Taxation

All significant interoffice balances and transactions have been eliminated to arrive at consolidated financial information.

B. Basis of Accounting

The financial statements have been prepared from records of the House that are largely based on cash transactions. However, adjustments have been made to apply the accrual basis of accounting in accordance with generally accepted accounting principles. The accrual basis of accounting provides for the recognition of significant and accountable financial transactions or events as they occur, as opposed to when cash is received or disbursed. Therefore, revenues are recorded when earned and expenses are recorded when a liability is incurred, without regard to receipt or payment of cash. The accrual basis of accounting contributes significantly to the development of accurate cost information needed to report the financial position and results of operations.

C. Fund Balance with the U.S. Treasury and Cash

Funds available to the House to pay current liabilities and finance authorized purchase commitments are on deposit principally with the U.S. Treasury.

- Fund Balance with the U.S. Treasury includes House accounts, as well as the Congressional Use of Foreign Currency account, which is held at the U.S. Treasury and is maintained and administered by the Department of State on behalf of the House. Members and committees do not pay bills or have separate U.S. Treasury accounts. Payments for the purchases and payroll of Members' staff and committees are processed by the Office of Finance. Therefore, the House accounts held at the U.S. Treasury are reported under the Office of Finance within Officers and Legislative Offices.
- The Capitol Police and Other Joint Functions have separate U.S. Treasury accounts. Therefore, fund balances for these accounts are reported separately.
- Cash represents petty cash as well as an Office of Finance deposit account with a commercial banking institution and an account for mailings that require address corrections or additional postage.
- For the purposes of the Consolidating Statement of Cash Flows, funds with the U.S. Treasury are considered cash.

D. Accounts Receivable

Receivables have been reconstructed from receipts information and from records maintained by various entities within the Officers and Legislative Offices. No allowances for doubtful collections are recorded because the identified receivables were either collected before preparation of the financial statements or because the collection is not in doubt.

E. Advances and Prepayments

Advances and prepayments primarily consist of prepaid subscriptions for publications and for data communication services.

F. Inventory

- The *Gift Shop* and the *Supply Store* maintain an inventory of goods for sale. These entities are included in the Officers and Legislative Offices column of the financial statements. Inventories for sale are valued at the lower of average cost or net realizable value.
- The *Furniture Resource Center*, also included in the Officers and Legislative Offices column, maintains inventories of such items as hardwood, carpet, leather, fabric, furniture components, and repair materials. These items are not for sale but are reflected on the Combining Statement of Financial Position at an estimated value based on the first in/first out inventory valuation method.

G. Property and Equipment

Equipment purchases, excluding computers, based on Office of Finance policy, are capitalized if the unit acquisition cost exceeds \$5,000 and the item has a useful life greater than one year. Computer equipment and

software are capitalized if the unit acquisition cost exceeds \$500 and the item has a useful life greater than one year. Expenditures for property and equipment that will benefit more than one accounting period are considered capital expenditures. The cost of such items are recognized as assets when acquired. An appropriate portion of the asset's value is reduced and an expense recognized over the accounting periods benefited by the asset's use. See Note 5, Property and Equipment, for additional information on property and equipment held by the House.

The House currently has no systematic means of accounting for the value of capitalized property and equipment. For purposes of presenting accrual-based financial statements, property and equipment amounts have been estimated and adjustments have been made based on information maintained in various systems. Because of the estimation methods used to compile the property and equipment amounts, many items older than five years that may still have value are not reported as assets in the financial statements.

The House has possession of numerous assets that may be of significant historical and artistic value. The House does not account for these assets nor are they included in the financial statements of the House. These assets may be maintained on the records of the Architect of the Capitol. The land and buildings occupied and used by Members, officers, and employees in Washington, D.C. are under the custody of the Architect of the Capitol and are not included in the financial statements of the House.

H. Leases

The House leases temporary usage of office space, vehicles, computers, and other equipment. These leases are generally classified as operating leases. House regulations require that leases entered into by Members for space and vehicles be no longer than the elected term of the Member. The House also enters into leases which are structured such that their terms effectively finance the purchase of the item. Such leases convey the benefits and risks of ownership and are classified as capital leases. Items acquired by capital leases are recorded as House assets. The asset and corresponding liability are recorded at the net present value of the minimum lease payments at lease inception. The portion of capital lease payments representing imputed interest is expensed as interest on capital leases. See Note 6, Lease Commitments, for additional lease information.

I. Revenue from Operations

Revenue is recognized when goods have been delivered or services rendered.

- Sales of goods to customers take place at the **Gift Shop** and the **Supply Store**.
- Sales of services to Federal agencies are comprised of the House Information Resources computer services provided to the General Accounting Office and the Congressional Budget Office.

- Sales of services to the public are comprised of House publication (e.g., transcript sales) and photography sales (e.g., sales to civic groups). Interoffice sales between House entities are eliminated on the consolidating financial statements.

J. Appropriations to Cover Expenses, Appropriations Receivable, and Appropriations Payable

Like most government organizations, the House finances most of its operations with appropriations. The expenses of Members, committees, and leadership offices are entirely financed with appropriations. Other House entities require appropriations to the extent the revenue they generate does not cover their expenses. Appropriations are referred to as a financing source instead of revenue, since they do not result from an earnings process. Generally, the House will not show an excess or deficiency of revenues over expenses because appropriations will exactly cover any excess expenses.

As discussed in Note 2C, Fund Balance with the U.S. Treasury and Cash, the Office of Finance maintains most of the House's accounts with the U.S. Treasury. The Office of Finance is responsible for allocating appropriations to the other House entities to cover expenses.

Appropriations Receivable are amounts allocated to the various House entities by the Office of Finance in order to pay each entity's liabilities. A corresponding appropriations payable arises in the Office of Finance.

The Office of Systems Management also has an Appropriations Payable. The Office of Systems Management includes in its Interoffice Receivable amounts owed by Members, committees, and leadership offices for installment plan purchases of equipment and district office furniture. Any interoffice receivables due to Office Systems Management exceeding liabilities are represented in Appropriations Payable.

K. Postage and Delivery

Postage and delivery primarily consist of Members' postage, including their use of the Frank, which is charged to the Members' Representational Allowances.

L. Repairs and Maintenance

Repairs and maintenance include all expenses related to the maintenance and upkeep of House equipment in both Washington, D.C. and in Members' district offices, as well as related operating lease payments on various types of equipment. In addition, property and equipment purchases below the capitalization thresholds discussed in Note 2G, Property and Equipment, are classified as repairs and maintenance.

M. Depreciation and Amortization

The cost of capital assets is allocated ratably over the asset's useful life as depreciation or amortization expense. The House calculates depreciation and amortization expense based on the straight-line method over an asset's estimated useful life. Depreciation expense is applicable

to tangible assets such as furniture, equipment, and vehicles, while amortization expense is applicable to intangible assets such as software and capital leases. Assets acquired under capital leases are generally amortized over the lease term. However, if a lease agreement contains a bargain purchase option or otherwise transfers title of the asset to the House, the asset is depreciated on the same basis as similar categories of owned assets. Accumulated depreciation and amortization are estimated based on available records.

N. Rent, Utilities, and Communications

Rent and utilities consist primarily of the rental of district offices by Members and any related utility payments. Communications costs consist of charges for news wire services, satellite fees, and external network access services.

O. Telecommunications

Telecommunications expense includes local and long distance telephone service in Washington, D.C. and Members' district offices.

P. Supplies and Materials

Supplies and materials are expenses by Members, committees, and other House offices for paper and other office supplies. Supplies and materials also include uniforms for the Capitol Police and medical supplies purchased by the Attending Physician. Supplies and materials do not include inventories held for sale by retail entities such as the Gift Shop and the Supply Store.

Q. Travel and Transportation

Travel and transportation expenses include official travel by Members, committees, and leadership offices; travel by other House officers and employees and congressional delegations; freight and shipping costs; and expenses related to the lease and maintenance of automobiles.

R. Contract, Consulting, and Other Services

Contract, consulting, and other services include the cost of data entry services in the Office of Finance, management services in House Postal Operations, annual audit fees, the cost of studies and analyses requested by committees, as well as computer, recording, janitorial, and catering services.

S. Printing and Reproduction

This category primarily includes printing and reproduction of constituent communications. Also included are photography services, as well as printing and reproduction of items such as informational publications and reference materials.

T. Subscriptions and Publications

Subscriptions and publications include the cost of periodicals and news services.

U. Cost of Goods Sold

Cost of goods sold includes the cost of products sold in the retail operations of the Gift Shop and the Supply Store.

V. Annual, Sick, and Other Leave

Annual leave for House Officers and their staffs is accrued as earned, and the liability is reduced as leave is taken. The accrued annual leave balance as of December 31, 1997, is calculated according to Pub.L. 104-53, Nov. 19, 1995, 109 Stat. 514.

W. Pension and Other Retirement

Benefits

The requirement for federal employers to recognize pension and other retirement benefits expenses in their financial statements commenced in 1997. Pension expense includes the current cost of providing future pension benefits to eligible employees at the time the employees' services are rendered. Other retirement benefits expense is the current period expense for the future cost of providing retirement benefits and life insurance to House employees. See Note 12, Benefits, for additional information.

X. Future Funding Requirements

Represents known liabilities to be funded by future appropriations. In previous years, these amounts were consolidated with the Office of Finance. This year, the amounts have been disclosed within each entity in an effort to more accurately reflect the future funding requirements of each entity.

NOTE 3 - INTRAGOVERNMENTAL FINANCIAL ACTIVITIES

The House has significant intragovernmental financial activities with Executive and Legislative Branch agencies. These financial activities include transactions and agreements to purchase goods and services.

Transactions with Executive Branch Agencies

The House's most significant interagency transactions are with the:

- U.S. Treasury for processing the House's cash receipts and disbursements and U.S. Department of State for maintaining and administering the Congressional Use of Foreign Currency account
- U.S. Postal Service for postage
- U.S. Department of Labor for unemployment and workers' compensation
- General Services Administration for the use and upkeep of office space in certain Members' district offices

- Federal Bureau of Investigation for investigative and protective services
- Other Executive Branch agencies for detailed staff to provide medical personnel and special studies, as requested by House committees

Significant cash disbursements to Executive Branch agencies during the years ended December 31, 1997, and 1996, were:

	<u>1997</u>	<u>1996</u>
U.S. Postal Service	\$ 21,011,144	\$ 32,281,547
U.S. Department of Labor	8,811,905	4,490,391
General Services Administration	4,315,193	3,593,876
Federal Bureau of Investigation	314,244	280,475
Other Executive Branch Agencies	861,404	546,923

The U.S. State Department maintains and administers the Congressional Use of Foreign Currency account on behalf of Congress. This account, which was established in 1948 and made permanent in 1981, is authorized by legislation codified in Title 22, Sec. 1754 of the United States Code. The funds are available to Congressional committees and delegations to cover local currency expenses incurred while traveling abroad. The fund balance related to the account is included in the Office of Finance's Fund Balance with U.S. Treasury under the Officers and Legislative Offices heading.

Use of the foreign currency account for Congressional delegations and other official foreign travel of the House is authorized by either the Speaker of the House or the chairman of a Standing, Select, or Joint Committee. Therefore, all foreign currency account expense activity is included in the travel expenses of the committee and leadership offices.

**Foreign Currency Balance with the
U.S. Department of State**

	<u>1997</u>	<u>1996</u>
Beginning Balance	\$ 6,340,517	\$ 5,909,664
Appropriation Received	800,000	2,600,000
Travel Expenses:		
Leadership	(739,167)	(316,700)
Committees	(2,789,247)	(1,852,447)
Ending Balance	<u>\$ 3,612,103</u>	<u>\$ 6,340,517</u>

Transactions with Legislative Branch Organizations

The House has significant transactions with other Legislative Branch organizations, some of which are shared with the Senate. These

organizations receive their own appropriations, and operate autonomously from the House's administrative functions. The Architect of the Capitol provides building-related services for the U.S. Capitol and House office buildings, including power, landscaping, janitorial services, and maintenance. The House also receives support services from the General Accounting Office, Library of Congress, Congressional Budget Office, Government Printing Office, and U.S. Botanic Garden. Significant cash disbursements to Legislative Branch entities during the years ended December 31, 1997, and 1996, were:

	<u>1997</u>	<u>1996</u>
General Accounting Office	\$ 3,574,834	\$ 1,188,380
Government Printing Office	391,182	324,959

The House provides computer services to Federal government agencies for a user fee. Total House Information Resources services provided to Federal agencies were \$2,796,288 and \$3,899,343 for the years ended December 31, 1997, and 1996, respectively. The following were the most significant users.

	<u>1997</u>	<u>1996</u>
General Accounting Office	\$ 1,595,722	\$ 2,300,000
Congressional Budget Office	775,872	1,146,000

NOTE 4 - FUND BALANCE WITH THE U.S. TREASURY AND CASH

The House's appropriated and revolving fund balances with the U.S. Treasury and cash balances, as of December 31, 1997, and 1996, as restated, are shown in the table below.

	<u>1997</u>	<u>1996</u> <u>(Restated)</u>
Fund Balance Accounts Maintained by the House	\$ 721,894,076	\$ 763,377,535
Congressional Use of Foreign Currency	<u>3,612,103</u>	<u>6,340,517</u>
Subtotal	725,506,179	769,718,052
Cash and Commercial Bank Accounts	<u>52,999</u>	<u>52,839</u>
Total	<u>\$ 725,559,178</u>	<u>\$ 769,770,891</u>

The U.S. Treasury reported the House's fund balance at December 31, 1997, as \$719,404,978. The difference of approximately \$6.1 million is attributable to differences between the time transactions are recorded in the House's Federal Financial System and reported by the U.S. Treasury.

Unlike Executive Branch departments and agencies, the House's appropriation is not apportioned by quarter. The House receives its entire annual appropriation in October, causing the fund balance with the U.S. Treasury to be relatively large at December 31, 1997, and 1996.

Cash and Commercial Bank Accounts

Cash balances represent petty cash on hand at various House offices and committees. The Office of Finance also maintains funds in a deposit account at a commercial bank and an account for mailings that require address corrections or additional postage. The House Restaurant balance represents funds in a commercial bank account that were established for use by the House Restaurant during the period in which it was operated internally by the House. Petty cash and funds in commercial bank accounts as of December 31, 1997, and 1996, were:

	<u>1997</u>	<u>1996</u>
Petty Cash	\$ 41,716	\$ 42,047
Commercial Bank Accounts:		
Office of Finance	11,155	10,664
House Restaurant	<u>128</u>	<u>128</u>
Total	<u>\$ 52,999</u>	<u>\$ 52,839</u>

NOTE 5 - PROPERTY AND EQUIPMENT

The House's accounting records currently do not systemically accumulate or summarize property and equipment information. Property and equipment balances were reconstructed predominantly from disbursement records based on purchasing patterns. Depreciation and amortization expense is calculated based on the straight-line method over an asset's estimated useful life. Presentation of useful life classifications has been changed for the 1997 financial statements. The note currently reflects specific useful lives for each class of asset instead of a range of useful lives for each class of asset as reflected on the 1996 financial statements. The current presentation was implemented in order to clearly identify fixed assets with specified useful lives. An estimate of property and equipment as of December 31, 1997, and its related depreciation expense is shown in the following table.

1997				
Classes of Property and Equipment	Service Life (Years)	Estimated Acquisition Value	Accumulated Amortization/Depreciation	Estimated Net Book Value
Computer Software, Hardware, and Patrol Vehicles	3	\$ 108,355,885	\$ 80,761,906	\$ 27,593,979
Computer Software, Hardware	5	1,787,313	1,457,070	330,243
Equipment and Motor Vehicles	5	67,877,441	48,770,156	19,107,285
Heavy Duty Equipment	7	255,478	226,890	28,588
Furnishings and Other Equipment	10	6,863,731	5,313,907	1,549,824
Assets Under Capital Lease	5	<u>1,946,217</u>	<u>764,979</u>	<u>1,181,238</u>
Total		<u>\$ 187,086,065</u>	<u>\$ 137,294,908</u>	<u>\$ 49,791,157</u>

An estimate of property and equipment as of December 31, 1996, as restated, and depreciation expense for the year then ended is shown in the following table.

1996 (Restated)				
Classes of Property and Equipment	Service Life (Years)	Estimated Acquisition Value	Accumulated Amortization/Depreciation	Estimated Net Book Value (Restated)
Office Equipment	3, 5 or 10	\$ 120,540,333	\$ 82,232,885	\$ 38,307,448
Telecommunications Equipment	7	21,453,466	18,591,294	2,862,172
Office Furnishings	5	56,700	47,100	9,600
Media Equipment	5 or 10	2,190,995	1,695,815	495,180
Software	3 or 5	4,852,279	4,181,748	670,531
Motor Vehicles	3, 5 or 7	1,703,295	1,187,992	515,303
Medical Equipment	5 or 10	<u>1,218,405</u>	<u>1,080,184</u>	<u>138,221</u>
Total		<u>\$ 152,015,473</u>	<u>\$ 109,017,018</u>	<u>\$ 42,998,455</u>

NOTE 6 - LEASE COMMITMENTS

The House leases temporary usage of office space, vehicles, computers, and other equipment. These leases are generally classified as operating leases. House regulations require that leases entered into by Members for space and vehicles be no longer than the elected term of the Member. The House also enters into leases which are structured such that their terms effectively finance the purchase of the item. Such leases convey the benefits and risks of ownership and are classified as capital leases. Items acquired by capital leases are recorded as House assets. The asset and corresponding liability are recorded at the net present value of the minimum lease payments at lease inception.

Capital Leases

Future Capital Lease Payments Due:

Year Ending December 31	1997
1998	\$ 1,063,758
1999	462,362
2000	70,155
2001	-
2002	-
Thereafter	<u>-</u>
Total Future Capital Lease Payments	\$ 1,596,275
Less: Imputed Interest	<u>(65,246)</u>
Total Capital Lease Liabilities	<u>\$ 1,531,029</u>
Unfunded Liability	<u>\$ 1,531,029</u>

As discussed in Note 2, these financial statements were prepared using the accrual basis of accounting. However, the following cash basis information is provided to aid the reader in the analysis of the Statement of Cash Flows. Interest paid on capital leases was \$99,518 and \$169,709 for the years ended December 31, 1997, and 1996, as restated, respectively.

Operating Leases

The House has entered into various operating leases for temporary usage of office space, vehicles, computers, and other equipment. Operating lease payments are recorded as expenses. Future operating lease payments are not accrued as liabilities.

Members may lease office space in their districts through the General Services Administration, an Executive Branch agency that operates Federal buildings and leases space from the private sector, or Members may directly lease space from the private sector. The Members' Congressional Handbook states that a Member cannot enter into a lease for office space beyond his/her elected term. Members and officers also can enter into leases to rent vehicles for official business purposes. While Members may lease a vehicle for a period that exceeds the current congressional term, the member remains personally responsible for the lease liability if the Member's service to the House concludes prior to the lease termination.

The future minimum lease payments due under non-cancelable operating leases as of December 31, 1997, are:

	<u>Software</u>	<u>Vehicles</u>	<u>Office Space</u>	<u>Total</u>
1998	\$ 628,279	\$ 650,222	\$ 14,882,146	\$ 16,160,64
1999	530,000	-	-	530,00
2000	530,000	-	-	530,00
2001	305,000	-	-	305,00
2002	-	-	-	
Thereafter	-	-	-	
Total	<u>\$ 1,993,279</u>	<u>\$ 650,222</u>	<u>\$ 14,882,146</u>	<u>\$ 17,525,64</u>

The Software column represents software leased by the House administration, while the Vehicles and Office Space columns represent leases by Members. Lease expense for office space was \$14,986,214 and \$14,942,177 for the years ended December 31, 1997, and 1996, respectively. Lease expense for vehicles was \$762,517 and \$678,000 for the years ended December 31, 1997, and 1996, respectively.

NOTE 7 - ACCOUNTS PAYABLE

The House does not maintain accrual-based records. Therefore, the accounts payable balances as of December 31, 1997, and 1996, as restated, have been estimated based on the sum of all payments made through March 13, 1998, and May 2, 1997, for goods and services received prior to December 31, 1997, and 1996. Accounts Payable also includes the following amounts for unpaid unemployment and workers' compensation expenses. Accounts Payable does not include amounts related to the Congressional Use of Foreign Currency account, as the House did not have the records related to foreign travel expenses to summarize the amount owed.

	<u>1997</u>	<u>1996 (Restated)</u>
Vendor Payables	\$ 25,852,558	\$ 39,178,348
Workers' Compensation	3,092,537	5,390,685
Unemployment Compensation	<u>182,507</u>	<u>2,132,671</u>
Total	<u>\$ 29,127,602</u>	<u>\$ 46,701,704</u>

NOTE 8 - ACCRUED LEAVE AND PAYROLL

The accrued annual leave balance as of December 31, 1997, was calculated according to H.R. 2492, Sec. 109, (i.e., the lesser of the employee's monthly pay or the monthly pay divided by 30 days and multiplied by the number of days of accrued leave). The 1996 accrued annual leave expense, as previously reported, was overstated by \$729,496 because the amount was calculated at the employee's regular hourly rate. Sick and other types of paid leave are expensed as taken.

Accrued payroll and benefits as of December 31, 1997, was \$10,331,883. The amount included salaries and associated benefits earned in December 1997 and payable in January 1998. Accrued payroll and benefits for 1996, as restated, was \$9,380,583. Effective September 1, 1995, the Members' Congressional Handbook allows Members to adopt personnel policies which provide for the accrual of annual leave and use of such leave. Similar policies have also been adopted by committees and leadership offices. While leave is tracked from one pay period to the next, a consistent policy has not been formally adopted by these entities regarding the accrual and payment of leave time. As a result, an accrued leave liability for Members, committees, and leadership offices cannot be reasonably estimated and is not recorded on the financial statements.

NOTE 9 - UNFUNDED WORKERS' COMPENSATION ACTUARIAL LIABILITY

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for the benefit of House employees under FECA are administered by the Department of Labor which pays the initial claim and obtains reimbursement from the House. The unfunded workers' compensation liability is an estimate based on actuarial calculations using historical payment patterns to predict what costs will be incurred over the next two years. The liability is adjusted annually by applying actuarial procedures. The upward or downward adjustment is recorded as an increase or decrease to benefits expense. The projected Unfunded Workers' Compensation Actuarial Liabilities were \$14,948,664 and \$18,092,302 as of December 31, 1997, and 1996, respectively.

NOTE 10 - NET POSITION

The components of Net Position are:

- Unexpended Appropriations - Appropriations are not considered expended until goods have been received or services have been rendered.
- Invested Capital - Funds used to finance capital assets such as property, equipment, and inventory.
- Cumulative Results of Operations Resulting from Revolving Fund activities.

- Future Funding Requirements - Known liabilities to be funded by future appropriations.

Unexpended Appropriations approximated \$700 million as of December 31, 1997. The fund balance at the U.S. Treasury was at a similar level on that date, because a 12 month appropriation was received in October 1997. Net Position in the Statement of Financial Position at December 31, 1997, has been reconstructed based on estimates of certain assets and liabilities. Therefore, the balances comprising Net Position must also be considered estimates.

The Net Position as of December 31, 1997, for the Appropriated Funds and the Revolving Funds, including the House Recording Studio, Page School, Barber Shop, Beauty Salon, Special Events and Services, Office Supply Systems, and the Child Care Center (which is not a revolving fund but is authorized to act as one), is shown in the following table.

	Revolving Funds	Appropriated Funds	Totals
Unexpended Appropriations	\$ 5,645,180	\$ 693,464,027	\$ 699,109,207
Invested Capital	2,742,521	48,219,204	50,961,725
Future Funding Requirements	<u>(566,816)</u>	<u>(26,244,760)</u>	<u>(26,811,576)</u>
Total	<u>\$ 7,820,885</u>	<u>\$ 715,438,471</u>	<u>\$ 723,259,356</u>

The following adjustments, as discussed below, were made to properly restate Net Position as of December 31, 1996.

Organization	Net Position Dec. 31, 1996 Previously Reported	Net Adjusting Entries	Net Position Dec. 31, 1996 (Restated)
Members	\$ 19,333,655	\$ 385,836	\$ 19,719,491
Committees	4,766,197	99,887	4,866,084
Leadership Offices	1,526,734	12,868	1,539,602
Officers and Legislative Offices	666,178,534	2,380,786	668,559,320
Capitol Police and Other Joint Functions	46,192,317	114,657	46,306,974
Legislative Service Organizations	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 737,997,437</u>	<u>\$ 2,994,034</u>	<u>\$ 740,991,471</u>

Prior period adjustments (net adjusting entries) were recorded to capture additional information which resulted primarily from corrections to capital lease depreciation, unemployment compensation, and annual leave expenses. Several financial statement balances were restated as a result of these adjustments.

The changes in Net Position during the year ended December 31, 1997, were:

<u>Organization</u>	<u>Net Position</u>	<u>Appropriations</u>	<u>Funds</u>	<u>Appropriated</u>	<u>Appropriatic</u>
	<u>Dec. 31, 1996</u>		<u>Returned to</u>	<u>Funds</u>	<u>to Cover</u>
	<u>(Restated)</u>	<u>Received</u>	<u>U.S. Treasury</u>	<u>Allocated</u>	<u>Expenses</u>
Members	\$ 19,719,491	\$ -	\$ -	\$ 507,798,890	\$(511,537,6
Committees	4,866,084	-	-	122,002,347	(121,010,0
Leadership Offices	1,539,602	-	-	16,519,753	(16,697,8
Officers and Legislative Offices	668,559,320	797,049,175	(60,697,275)	(646,583,091)	(103,140,6
Capitol Police and Other Joint Functions	46,306,974	48,155,500	(4,738,949)	262,101	(45,114,3
Total	<u>\$ 740,991,471</u>	<u>\$ 845,204,675</u>	<u>\$ (65,436,224)</u>	<u>\$ -</u>	<u>\$(797,500,5</u>

Appropriations received are funds which have been made available to the House through the U.S. Treasury. For all House entities, appropriations received are maintained by the Office of Finance, which is reported in the financial statements under Officers and Legislative Offices. As required by law, appropriated funds which are not expended within the timeframes noted in the corresponding legislation are returned to the U.S. Treasury. Appropriations received have been disclosed separately for Capitol Police and Other Joint Functions, which are not under the direct control of the House.

The Appropriations Committee rescinded in 1997, the 1996 appropriation for Capitol Police in Public Law 104-53 by \$2,200,000 and stipulated that the funds be returned to the U.S. Treasury.

Appropriated funds which are unexpended at the end of a specified term are required by law to be transferred to the U.S. Treasury general account. They are:

	<u>1997</u>	<u>1996</u>
1995 House Funds	\$ 58,825,618	\$ -
1994 House Funds	<u>1,871,657</u>	<u>11,967,067</u>
Total	<u>\$ 60,697,275</u>	<u>\$ 11,967,067</u>
1996 Capitol Police (Funds Rescinded)	\$ 2,200,000	\$ -
1995 Capitol Police and Other Joint Functions	2,538,949	-
1994 Capitol Police and Other Joint Functions	<u>-</u>	<u>1,012,083</u>
Total	<u>\$ 4,738,949</u>	<u>\$ 1,012,083</u>

NOTE 11 - REVOLVING FUNDS, INTEROFFICE SALES, AND TRANSFERS

Some entities of the House transfer costs to Members, committees, and other offices for goods and services provided. These entities are primarily:

- Office of Systems Management, which transfers costs of equipment to the Members and committees,

- House Information Resources, which transfers phone charges, and
- Office Supply Services, which accounts for office supply purchases and flag sales.

However, many expenses are incurred by House entities that are not fully charged to Members or committees, including certain telecommunication services, Washington D.C. office furnishings, and computer services. Some House business-like activities operate as revolving funds. A revolving fund is a budgetary structure set by statute which authorizes Executive Branch agencies to collect user fees or revenue to finance operating expenses. In 1997, the House operated revolving fund type activities for the House Recording Studio, House Page School, Office Supply, and Child Care Center.

NOTE 12 - BENEFITS, PENSION, AND OTHER BENEFITS EXPENSE

House Members and employees are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both Members and employees are eligible for retirement benefits under CSRS or FERS. A CSRS basic annuity, unreduced for age, debts to the fund, or survivor's benefits, is the product of the highest three consecutive year average salary and a percentage factor which is based on the length of Federal service. However, Members' benefits are different from those of employees. For example, a Member covered by CSRS can be eligible to receive unreduced retirement benefits at age 60 if he or she has 10 years of Member service. An employee is eligible to receive reduced benefits at age 50 with 20 years of service or at any age with 25 years of service. The FERS basic benefit plan for Members and employees are the same.

CSRS employees contribute a portion of their earnings to the Civil Service Retirement Fund. The House also contributes an amount to this fund. FERS employees, in addition to Social Security withholdings, contribute a portion of their base earnings to the FERS retirement fund. The House also contributes an amount toward the FERS retirement and Social Security fund.

Both FERS and CSRS employees are eligible to contribute to the Thrift Savings Plan (TSP). FERS employees can contribute to TSP a maximum of 10 percent of their basic pay not to exceed the IRS limit. FERS employees also receive an automatic 1 percent agency contribution as well as an additional agency matching contribution up to 5 percent of their basic pay. CSRS employees may contribute up to 5 percent of their basic pay but do not receive matching agency contributions. FERS employees could receive benefits from the Federal Employees Retirement System, the Social Security System, and the Thrift Savings Plan. CSRS employees could receive benefits from the Civil Service Retirement System and the Thrift Savings Plan. Some CSRS employees may also be eligible for Social Security benefits.

<u>Member and Benefit Expenses</u>	<u>1997</u>	<u>1996</u> <u>(Restated)</u>
Retirement Plan Contributions	\$ 83,659,454	\$ 79,364,681
Social Security	29,703,168	27,928,996
Health Insurance	18,913,619	18,312,171
Unemployment and Workers' Compensation	4,159,976	4,411,483
Workers' Compensation Actuarial Downward Adjustment	(3,143,638)	-
Life Insurance	800,344	774,250
Pension and Other Retirement Benefits	105,814,078	-
Death Benefits	<u>396,010</u>	<u>251,110</u>
Total	<u>\$ 240,303,011</u>	<u>\$ 131,042,691</u>

Effective in 1997, Federal employing entities began recognizing their share of the cost of providing future pension benefits to eligible employees at the time the employees' services are rendered. The pension expense recognized in the Statement of Operations is the current service cost for House employees less the amount contributed by the employee. The measurement of the service cost requires the use of an actuarial cost method and assumptions, with the factors applied by the House provided by the Office of Personnel Management (OPM), the agency that administers the plan. The excess of the recognized pension expense over the amount contributed by the House represents the amount being financed directly through the Civil Service Retirement and Disability Fund administered by OPM. The House does not receive an appropriation to fund this expense. Therefore, pension expense in the amount of \$84,219,056 is considered an imputed financing source to the House. This amount is included in Imputed Financing Sources on the Statement of Operations.

Also, effective in 1997, Federal employing entities began recognizing a current period expense for the future cost of post-retirement health benefits and life insurance for its employees while they are still working. This expense is classified as Other Retirement Benefit (ORB) expense. The House accounts for and reports the ORB expense in the Statement of Operations in a manner similar to pension expense, with the exception that employees and the House do not currently make contributions to fund these future benefits. The House does not receive an appropriation to fund this expense. ORB expense in the amount of \$21,595,022 is also considered an imputed financing source to the House. This amount is included in Imputed Financing Sources on the Statement of Operations.

<u>Pension and Other Retirement Benefits</u>	<u>1997</u>
Current Service Cost - Federal Pensions	\$ 84,219,056
Current Service Cost - Federal Employees Health Benefits	21,522,069
Current Service Cost - Federal Employees Group Life Insurance	<u>72,953</u>
Total	<u>\$ 105,814,078</u>

NOTE 13 - SUPPLEMENTAL FINANCIAL SCHEDULES

To provide additional financial information about smaller components of the House, supplemental financial schedules are presented as follows: Financial information has been provided for each of the entities comprising **Officers and Legislative Offices**, as reported in the consolidating financial statements. These include the:

- Clerk of the House
- Sergeant at Arms
- Chaplain
- Chief Administrative Officer
- Parliamentarian
- Legislative Counsel
- Law Revision Counsel
- Inspector General

Additional financial information with respect to areas under the **Chief Administrative Officer** has also been provided. These include the:

- Immediate Office of the CAO
- Child Care Center
- House Postal Operations
- Special Events and Services
- Office of Finance
- Furniture Resource Center
- Office Supply Service
- Office Systems Management
- Human Resources
- House Information Resources
- Office of Photography
- House Recording Studio

The legislative support and administrative functions provided by these entities include daycare services for children of Members and employees, as well as non-House employees on a space-available basis; postal services; vending services; accounting services; construction and refurbishing of furniture for Members and staff; and purchasing services for office and computer equipment, as well as office supplies.

Capitol Police and Other Joint Functions include joint activities of the House and Senate. The House's financial statements report only that portion of these functions accounted for by the House. The joint functions include the:

- Attending Physician
- Capitol Police
- Joint Committee on Taxation

The House's management does not exert direct control over the expenditures of these functions.

NOTE 14 - SUPPLEMENTAL SCHEDULE: STATEMENT OF BUDGET AND ACTUAL EXPENDITURES (UNAUDITED)

The budget of the House is prepared on the Federal government fiscal year (FY) ending September 30, as opposed to a calendar year basis, which coincides closely with the legislative year. As a result, the Consolidating Statement of Budget and Actual Expenditures can only be shown for the FYs ended September 30, 1997, and 1996. Expenditures are shown net of earned revenues. The FY 1997 statement reflects expenditures that were disbursed through March 15, 1998, and relate to purchases made or services delivered in FY 1997. The FY 1996 statement reflects expenditures that were disbursed through May 1997 and relate to purchases made or services delivered in FY 1996. The \$19,104,810 remaining at September 30, 1997, and \$18,502,160 remaining at September 30, 1996, are available to pay or liquidate existing FY 1997 and FY 1996 obligations.

The column entitled "Benefits and Other" includes the House's budgetary resources and expenditures for its contributions toward Member and employee benefits, as well as other less significant amounts related to gratuities and interparliamentary receptions. Because the House's budgetary records aggregate these amounts, they cannot be aligned with the individual House entities to which they relate.

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Supplemental Schedules

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Organization and Composition of Consolidating Financial
Statements

**U.S. House of Representatives
Organization and Composition of
Consolidating Financial Statements****Members**

Commissioner Representatives, Delegates, and Resident

Members' Allowances and Expenses

Committees

Oversight Committee on Agriculture
 Committee on Appropriations
 Committee on Banking and Financial Services
 Committee on the Budget
 Committee on Commerce
 Committee on Education and the Workforce
 Committee on Government Reform and

 Committee on House Oversight
 Committee on International Relations
 Committee on the Judiciary
 Committee on National Security
 Committee on Resources
 Committee on Rules
 Committee on Science
 Committee on Small Business
 Committee on Standards of Official Conduct
 Committee on Transportation and Infrastructure
 Committee on Veterans' Affairs
 Committee on Ways and Means
 Permanent Select Committee on Intelligence

Leadership Offices

Office of the Speaker
 Corrections Calendar Office
Office of the Majority Leader
Office of the Majority Whip
Office of the Chief Deputy Majority Whip
Office of the Minority Leader
Office of the Minority Whip
Offices of the Chief Deputy Minority Whips
Office of the Former Speaker - Albert
Office of the Former Speaker - Wright
Office of the Former Speaker - Foley

Republican Conference
Democratic Steering Committee
Democratic Caucus
Republican Steering Committee

Officers and Legislative Offices

Clerk

Office of the Clerk
Office of the General Counsel
Office of Official Reporters
Legislative Operations
Legislative Information
Legislative Resource Center
Service Group
Legislative Computers
Office of the House Employment Counsel
Office of Printing Services
Page Program

Page Residence Hall Revolving Fund

Sergeant at Arms

Office of the Sergeant at Arms
Office of Chamber Security
Office of House Garages and Parking Security
Capitol Guide Service
I.D. Services

Chaplain

Office of the Chaplain

Chief Administrative Officer (CAO)

CAO

Office of the Chief Administrative Officer
Legal
Radio/TV Gallery
Periodic Press Gallery
House Press Gallery
American Disabilities Act Services

Child Care Center

House Child Care

House Postal Operations

House Postal Operations

	Special Events and Services
	Media and Support Services
Food Service	OneCall
	Office of Finance
	Office of Finance
	Budget
	Financial Systems
	Financial Counseling
	Accounting
	Allowance and Expense/Supplies & Materials
	Allowance and Expenses/Government
Contributions	
	Allowance and Expenses/Re-employed
Annuitants	
	Furniture Resource Center
	Furniture Resource Center
	Furniture and Furnishings
	Office Supply Services
	Office of Supply Services
	Stationery Revolving Fund
	Office Systems Management
	Office Systems Management
	Office Equipment
	Human Resources and Other
Human Resources	
	Office of Member Services
	Office of Employee Assistance
	Office of Personnel and Benefits
	Office of Training
	Office of Payroll
	Office of Policy and Administration
	Procurement and Purchasing
	House Information Resources
	House Information Resources
	Integration
	Communications
	Client Services
	Enterprise Computing
	Photography

Office of Photography

Recording Studio

Communications Media

House Recording Studio Revolving Fund

Parliamentarian

Office of the Parliamentarian

Compilation of Precedents

Legislative Counsel

Office of the Legislative Counsel

Law Revision Counsel

Office of the Law Revision Counsel

Inspector General

Office of Inspector General

Capitol Police and Other Joint Functions

Capitol Police - Security

Capitol Police - General Expenses

Office of the Attending Physician

Attending Physician User Fees

Technical Assistants to Attending Physicians

Joint Committee on Taxation

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Officers and Legislative Offices

U.S. House of Representatives
Combining Statement of Financial Position
Of Officers and Legislative Offices
As of December 31, 1997

	Clerk	Sergeant at Arms	Chaplain	Chief Administrative Officer *
ASSETS				
Fund Balance with the U.S. Treasury	\$ 1,535,220	\$ 0	\$ 0	\$ 676,900,010
Cash	0	0	0	31,019
Fund Balance with U.S. Treasury and Cash	1,535,220	0	0	676,931,029
Accounts Receivable	0	0	0	688,404
Interoffice Receivable	0	0	0	9,068,627
Appropriations Receivable	237,639	34,130	59	4,260,192
Advances and Prepayments	26,521	0	0	62,401
Inventory	0	0	0	1,170,568
Property and Equipment, Net	1,188,392	385,027	2,527	16,785,703
Total Assets	\$ 2,987,772	\$ 419,157	\$ 2,586	\$ 708,966,924
LIABILITIES AND NET POSITION				
Accounts Payable	\$ 279,252	\$ 29,016	\$ 59	\$ 14,323,245
Interoffice Payable	11,558	5,114	0	63,594
Appropriations Payable	0	0	0	24,543,303
Capital Lease Liabilities	0	0	0	1,531,029
Intragovernmental Liabilities	0	0	0	0
Accrued Leave and Payroll	456,920	130,736	0	1,320,063
Unfunded Workers' Comp. Actuarial Liability	0	0	0	14,948,664
Total Liabilities	747,730	164,866	59	56,729,898
Unexpended Appropriations	1,508,570	0	0	652,080,511
Invested Capital	1,188,392	385,027	2,527	17,956,271
Future Funding Requirements	(456,920)	(130,736)	0	(17,799,756)
Total Net Position	2,240,042	254,291	2,527	652,237,026
Total Liabilities and Net Position	\$ 2,987,772	\$ 419,157	\$ 2,586	\$ 708,966,924

* Additional detail provided in CAO supplemental schedules.

Parliamentarian	Legislative Counsel	Law Revision Counsel	Inspector General	Combined
\$ 0	\$ 0	\$ 0	\$ 0	\$ 678,435,230
0	0	0	0	31,019
0	0	0	0	678,466,249
0	0	0	0	688,404
0	0	0	0	9,068,627
17,846	29,088	87,823	63,340	4,730,117
27	3,607	12,584	333	105,473
0	0	0	0	1,170,568
45,633	4,334	406,774	72,963	18,891,353
\$ 63,506	\$ 37,029	\$ 507,181	\$ 136,636	\$ 713,120,791
\$ 17,418	\$ 31,387	\$ 36,053	\$ 62,406	\$ 14,778,836
455	1,308	64,354	1,267	147,650
0	0	0	0	24,543,303
0	0	0	0	1,531,029
0	0	0	0	0
0	0	0	76,115	1,983,834
0	0	0	0	14,948,664
17,873	32,695	100,407	139,788	57,933,316
0	0	0	0	653,589,081
45,633	4,334	406,774	72,963	20,061,921
0	0	0	(76,115)	(18,463,527)
45,633	4,334	406,774	(3,152)	655,187,475
\$ 63,506	\$ 37,029	\$ 507,181	\$ 136,636	\$ 713,120,791

**U.S. House of Representatives
Combining Statement of Operations
Of Officers and Legislative Offices
For the Year Ended December 31, 1997**

	<u>Clerk</u>	<u>Sergeant at Arms</u>	<u>Chaplain</u>	<u>Chief Administrative Officer *</u>
REVENUE AND FINANCING SOURCES				
Revenue from Operations				
Sales of Goods	\$ 0	\$ 0	\$ 0	\$ 3,101,803
Sales of Services to Federal Agencies	0	0	0	2,803,638
Sales of Services to the Public	272,107	0	0	470,228
Interoffice Sales	0	0	0	39,725,370
Revenue from Operations	<u>272,107</u>	<u>0</u>	<u>0</u>	<u>46,101,039</u>
Financing Sources				
Appropriations to Cover Expenses	18,204,782	4,208,036	170,293	66,515,859
Imputed Financing Source (Note 12)	2,384,710	635,017	28,229	5,942,877
Total Revenue and Financing Sources	<u>20,861,599</u>	<u>4,843,053</u>	<u>198,522</u>	<u>118,559,775</u>
EXPENSES				
Personnel Compensation	11,088,433	2,955,820	131,337	28,023,689
Benefits	5,533,658	1,473,540	65,504	13,723,250
Postage and Delivery	50,097	520	165	337,444
Repairs and Maintenance	1,167,757	55,658	0	39,711,519
Depreciation and Amortization	1,009,625	152,137	1,516	7,949,026
Rent, Utilities, and Communications	23,778	3	0	1,521,371
Telecommunications	101,594	71,504	0	11,897,012
Supplies and Materials	333,418	93,036	0	2,486,463
Travel and Transportation	86,243	27,330	0	55,776
Contract, Consulting, and Other Services	1,334,457	12,251	0	7,344,875
Printing and Reproduction	12,403	349	0	8,595
Subscriptions and Publications	120,136	905	0	60,407
Cost of Goods Sold	0	0	0	5,348,158
Interest on Capital Leases	0	0	0	92,190
Total Expenses	<u>20,861,599</u>	<u>4,843,053</u>	<u>198,522</u>	<u>118,559,775</u>
Excess (Deficiency) of Revenue and Financing Sources Over Expenses	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* Additional detail provided in CAO supplemental schedules.

Parliamentarian	Legislative Counsel	Law Revision Counsel	Inspector General	Combined
\$ 0	\$ 0	\$ 0	\$ 0	3,101,803
0	0	0	0	2,803,638
0	0	0	0	742,335
0	0	0	0	39,725,370
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>46,373,146</u>
1,256,212	5,977,295	2,174,843	4,633,334	103,140,654
188,584	946,450	329,727	316,900	10,772,494
<u>1,444,796</u>	<u>6,923,745</u>	<u>2,504,570</u>	<u>4,950,234</u>	<u>160,286,294</u>
877,397	4,403,404	1,534,068	1,474,390	50,488,538
437,605	2,196,214	765,122	735,358	24,930,251
0	161	3,034	113	391,534
21,518	202,549	63,241	34,533	41,256,775
18,686	49,062	76,109	56,067	9,312,228
0	0	0	0	1,545,152
6,325	16,226	2,717	13,593	12,108,971
4,099	24,961	11,136	17,206	2,970,319
0	1,133	0	2,324	172,806
77,364	10,504	41,478	2,612,599	11,433,528
49	0	60	221	21,677
1,753	19,531	7,605	3,830	214,167
0	0	0	0	5,348,158
0	0	0	0	92,190
<u>1,444,796</u>	<u>6,923,745</u>	<u>2,504,570</u>	<u>4,950,234</u>	<u>160,286,294</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

**U.S. House of Representatives
Combining Statement of Cash Flows
Of Officers and Legislative Offices
For the Year Ended December 31, 1997**

	<u>Clerk</u>	<u>Sergeant at Arms</u>	<u>Chaplain</u>	<u>Chief Administrative Officer *</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (Deficiency) of Revenue and Financing Sources Over Expenses	\$ 0	\$ 0	\$ 0	\$ 0
Adjustments affecting Cash Flow				
Appropriations to Cover Expenses	(18,204,782)	(4,208,036)	(170,293)	(66,515,859)
(Increase)/Decrease in Accounts, Interoffice, and Appropriations Receivable	1,515,317	270,822	73	9,885,917
(Increase)/Decrease in Advances and Prepayments	4,557	0	0	197,801
(Increase)/Decrease in Inventory	0	0	0	(22,016)
Increase/(Decrease) in Accounts, Interoffice, and Appropriations Payable	(1,067,973)	(114,849)	87	(35,841,003)
Increase/(Decrease) in Other Accrued Liabilities	24,480	21,383	0	(3,346,452)
Depreciation and Amortization	<u>1,009,625</u>	<u>152,137</u>	<u>1,516</u>	<u>7,949,026</u>
Net Cash Provided (Used) by Operating Activities	<u>(16,718,776)</u>	<u>(3,878,543)</u>	<u>(168,617)</u>	<u>(87,692,586)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of Property and Equipment, Net	<u>(627,832)</u>	<u>(134,001)</u>	<u>0</u>	<u>(10,059,084)</u>
Net Cash (Used) by Investing Activities	<u>(627,832)</u>	<u>(134,001)</u>	<u>0</u>	<u>(10,059,084)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Appropriations Received	0	0	0	797,049,175
Funds Returned to the U.S. Treasury	0	0	0	(60,697,275)
Appropriated Funds Allocated	17,450,170	4,012,544	168,617	(682,086,018)
Principal Payment on Capital Lease Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,001,782)</u>
Net Cash Provided by Financing Activities	<u>17,450,170</u>	<u>4,012,544</u>	<u>168,617</u>	<u>53,264,100</u>
Net Cash Provided (Used) by Operating, Investing, and Financing Activities	103,562	0	0	(44,487,570)
Fund Balance with U.S. Treasury and Cash, Beginning	<u>1,431,658</u>	<u>0</u>	<u>0</u>	<u>721,418,599</u>
Fund Balance with U.S. Treasury and Cash, Ending	<u>\$ 1,535,220</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 676,931,029</u>

* Additional detail provided in CAO supplemental schedules.

Parliamentarian	Legislative Counsel	Law Revision Counsel	Inspector General	Combined
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
(1,256,212)	(5,977,295)	(2,174,843)	(4,633,334)	(103,140,654)
24,529	160,419	293,691	207,511	12,358,279
(27)	(1,359)	(12,521)	1,627	190,078
0	0	0	0	(22,016)
(23,437)	(153,715)	(279,308)	(108,148)	(37,588,346)
0	0	0	1,969	(3,298,620)
18,686	49,062	76,109	56,067	9,312,228
(1,236,461)	(5,922,888)	(2,096,872)	(4,474,308)	(122,189,051)
(31,690)	(3,485)	(59,897)	(45,995)	(10,961,984)
(31,690)	(3,485)	(59,897)	(45,995)	(10,961,984)
0	0	0	0	797,049,175
0	0	0	0	(60,697,275)
1,268,151	5,926,373	2,156,769	4,520,303	(646,583,091)
0	0	0	0	(1,001,782)
1,268,151	5,926,373	2,156,769	4,520,303	88,767,027
0	0	0	0	(44,384,008)
0	0	0	0	722,850,257
\$ 0	\$ 0	\$ 0	\$ 0	\$ 678,466,249

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Chief Administrative Officer

U.S. House of Representatives
Combining Statement of Financial Position
Of the Chief Administrative Office
As of December 31, 1997

	CAO	Child Care Center	House Postal Operations	Special Events & Services	Office of Finance
ASSETS					
Fund Balance with the U.S. Treasury	\$ 0	\$ 0	\$ 0	\$ 219,240	\$ 672,182,516
Cash	0	0	15,948	1,241	11,226
Fund Balance with U.S. Treasury and Cash	0	0	15,948	220,481	672,193,742
Accounts Receivable	0	0	0	26,625	0
Interoffice Receivable	0	0	0	0	0
Appropriations Receivable	22,631	3,291	228,680	134,457	0
Advances and Prepayments	254	0	47	0	537
Inventory	0	0	0	4,816	0
Property and Equipment, Net	487,238	0	105,294	0	261,456
Total Assets	\$ 510,123	\$ 3,291	\$ 349,969	\$ 386,379	\$ 672,455,735
LIABILITIES AND NET POSITION					
Accounts Payable	\$ 16,736	\$ 3,216	\$ 244,302	\$ 102,829	\$ 4,094,073
Interoffice Payable	6,149	75	373	396	1,872
Appropriations Payable	0	0	0	0	20,154,433
Capital Lease Liabilities	0	0	0	0	0
Intragovernmental Liabilities	0	0	0	0	0
Accrued Leave and Payroll	102,084	465	32,096	16,241	103,699
Unfunded Workers' Comp. Actuarial Liability	0	0	0	0	14,948,664
Total Liabilities	124,969	3,756	276,771	119,466	39,302,741
Unexpended Appropriations	0	0	0	278,338	647,943,901
Invested Capital	487,238	0	105,294	4,816	261,456
Future Funding Requirements	(102,084)	(465)	(32,096)	(16,241)	(15,052,363)
Total Net Position	385,154	(465)	73,198	266,913	633,152,994
Total Liabilities and Net Position	\$ 510,123	\$ 3,291	\$ 349,969	\$ 386,379	\$ 672,455,735

Furniture Resource Center	Office Supply Service	Office Systems Management	Human Resources And Other	House Information Resources	Office of Photography	House Recording Studio	Combined
\$ 0	\$ 3,642,693	\$ 0	\$ 0	\$ 0	\$ 0	\$ 855,561	\$ 676,900,010
0	2,500	0	0	0	0	104	31,019
0	3,645,193	0	0	0	0	855,665	676,931,029
0	20,371	0	0	641,408	0	0	688,404
0	72,316	7,897,481	0	1,098,830	0	0	9,068,627
11,752	0	0	158,122	3,692,927	8,332	0	4,260,192
0	761	8,613	379	51,806	0	4	62,401
210,795	954,957	0	0	0	0	0	1,170,568
401,820	115,267	551,729	346,046	13,868,334	169,430	479,089	16,785,703
\$ 624,367	\$ 4,808,865	\$ 8,457,823	\$ 504,547	\$ 19,353,305	\$ 177,762	\$ 1,334,758	\$ 708,966,924
\$ 8,113	\$ 725,818	\$ 3,515,828	\$ 127,400	\$ 5,467,796	\$ 8,059	\$ 9,075	\$ 14,323,245
3,639	404	1,396	31,101	17,175	273	741	63,594
0	0	4,388,870	0	0	0	0	24,543,303
0	0	0	0	1,531,029	0	0	1,531,029
0	0	0	0	0	0	0	0
184,427	50,487	77,466	160,337	526,983	23,075	42,703	1,320,063
0	0	0	0	0	0	0	14,948,664
196,179	776,709	7,983,560	318,838	7,542,983	31,407	52,519	56,729,898
0	3,012,419	0	0	0	0	845,853	652,080,511
612,615	1,070,224	551,729	346,046	13,868,334	169,430	479,089	17,956,271
(184,427)	(50,487)	(77,466)	(160,337)	(2,058,012)	(23,075)	(42,703)	(17,799,756)
428,188	4,032,156	474,263	185,709	11,810,322	146,355	1,282,239	652,237,026
\$ 624,367	\$ 4,808,865	\$ 8,457,823	\$ 504,547	\$ 19,353,305	\$ 177,762	\$ 1,334,758	\$ 708,966,924

**U.S. House of Representatives
Combining Statement of Operations
Of the Chief Administrative Office
For the Year Ended December 31, 1997**

	<u>CAO</u>	<u>Child Care Center</u>	<u>House Postal Operations</u>	<u>Special Events & Services</u>	<u>Office of Finance</u>
REVENUE AND FINANCING SOURCES					
Revenue from Operations					
Sales of Goods	\$ 0	\$ 0	\$ 0	\$ 406,501	\$ 0
Sales of Services to Federal Agencies	0	0	0	0	0
Sales of Services to the Public	4,560	454,674	0	0	0
Interoffice Sales	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Revenue from Operations	4,560	454,674	0	406,501	0
Financing Sources					
Appropriations to Cover Expenses	2,974,145	136,517	3,755,618	333,254	6,458,903
Imputed Finance Source (Note 12)	<u>400,316</u>	<u>94,663</u>	<u>97,054</u>	<u>49,963</u>	<u>464,304</u>
Total Revenue and Financing Sources	3,379,021	685,854	3,852,672	789,718	6,923,207
EXPENSES					
Personnel Compensation	1,862,523	440,547	451,549	237,905	2,550,211
Benefits	928,923	219,664	225,212	115,938	728,585
Postage and Delivery	112,403	96	64	0	51,251
Repairs and Maintenance	53,512	0	86,298	22,637	1,179,645
Depreciation and Amortization	321,162	0	189,703	1,297	126,749
Rent, Utilities, and Communications	0	0	0	0	25,817
Telecommunications	32,464	496	8,435	4,286	19,043
Supplies and Materials	17,548	17,331	11,927	223,095	62,662
Travel and Transportation	50	0	3,300	2,055	388
Contract, Consulting, and Other Services	41,419	7,370	2,875,216	182,446	2,177,556
Printing and Reproduction	1,135	350	0	59	209
Subscriptions and Publications	7,882	0	968	0	1,091
Cost of Goods Sold	0	0	0	0	0
Interest on Capital Leases	0	0	0	0	0
Total Expenses	<u>3,379,021</u>	<u>685,854</u>	<u>3,852,672</u>	<u>789,718</u>	<u>6,923,207</u>
Excess (Deficiency) of Revenue and Financing Sources Over Expenses	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Furniture Resource Center	Office Supply Service	Office Systems Management	Human Resources And Other	House Information Resources	Office of Photography	House Recording Studio	Combined
\$ 181	\$ 2,695,121	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,101,803
0	0	0	0	2,803,638	0	0	2,803,638
0	0	0	0	0	6,829	4,165	470,228
25,817	3,822,816	22,714,307	0	12,534,656	362,450	265,324	39,725,370
25,998	6,517,937	22,714,307	0	15,338,294	369,279	269,489	46,101,039
6,501,412	1,477,473	4,790,487	4,582,390	33,654,350	289,732	1,561,578	66,515,859
781,749	187,996	326,001	541,007	2,695,787	80,732	223,305	5,942,877
7,309,159	8,183,406	27,830,795	5,123,397	51,688,431	739,743	2,054,372	118,559,775
3,632,763	873,852	1,508,913	2,500,106	12,550,553	375,079	1,039,688	28,023,689
1,814,028	436,240	756,476	1,537,169	6,255,505	187,337	518,173	13,723,250
655	149,948	13,167	4,607	5,253	0	0	337,444
985,199	21,883	25,323,456	434,851	11,424,823	34,830	144,385	39,711,519
103,430	32,139	171,085	361,433	6,312,271	42,123	287,634	7,949,026
0	0	0	0	1,476,170	0	19,384	1,521,371
13,125	5,997	19,796	36,186	11,745,320	3,231	8,633	11,897,012
721,451	1,048,950	21,327	38,825	198,988	96,883	27,476	2,486,463
16,947	675	631	5,356	25,138	0	1,236	55,776
20,880	262,550	15,944	180,777	1,573,092	0	7,625	7,344,875
0	2,982	0	3,251	349	260	0	8,595
681	32	0	20,836	28,779	0	138	60,407
0	5,348,158	0	0	0	0	0	5,348,158
0	0	0	0	92,190	0	0	92,190
7,309,159	8,183,406	27,830,795	5,123,397	51,688,431	739,743	2,054,372	118,559,775
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

**U.S. House of Representatives
Combining Statement of Cash Flows
Of the Chief Administrative Office
For the Year Ended December 31, 1997**

	<u>CAO</u>	<u>Child Care Center</u>	<u>House Postal Operations</u>	<u>Special Events & Services</u>	<u>Office of Finance</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Excess (Deficiency) of Revenue and Financing Sources Over Expenses	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Adjustments affecting Cash Flow					
Appropriations to Cover Expenses	(2,974,145)	(136,517)	(3,755,618)	(333,254)	(6,458,903)
(Increase)/Decrease in Accounts, Interoffice, and Appropriations Receivable	222,998	18,155	348,652	634,980	0
(Increase)/Decrease in Advances and Prepayments	(254)	0	14	0	(407)
(Increase)/Decrease in Inventory	0	0	0	39,237	0
Increase/(Decrease) in Accounts, Interoffice, and Appropriations Payable	(117,375)	(5,885)	(289,009)	(1,183,197)	(28,861,280)
Increase/(Decrease) in Other Accrued Liabilities	32,578	(11,117)	(500)	6,134	(3,181,626)
Depreciation and Amortization	321,162	0	189,703	1,297	126,749
Net Cash Provided (Used) by Operating Activities	<u>(2,515,036)</u>	<u>(135,364)</u>	<u>(3,506,758)</u>	<u>(834,803)</u>	<u>(38,375,467)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of Property and Equipment, Net	<u>(139,820)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(216,382)</u>
Net Cash Provided (Used) by Investing Activities	<u>(139,820)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(216,382)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Appropriations Received	0	0	0	0	797,049,175
Funds Returned to the U.S. Treasury	0	0	0	0	(60,697,275)
Appropriated Funds Allocated	2,654,856	135,264	3,514,672	622,621	(740,486,991)
Principal Payment on Capital Lease Liabilities	0	0	0	0	0
Net Cash Provided (Used) by Financing Activities	<u>2,654,856</u>	<u>135,264</u>	<u>3,514,672</u>	<u>622,621</u>	<u>(4,135,091)</u>
Net Cash Provided (Used) by Operating, Investing, and Financing Activities	0	(100)	7,914	(212,182)	(42,726,940)
Fund Balance with U.S. Treasury and Cash, Beginning	0	100	8,034	432,663	714,920,682
Fund Balance with U.S. Treasury and Cash, Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 15,948</u>	<u>\$ 220,481</u>	<u>\$672,193,742</u>

<u>Furniture Resource Center</u>	<u>Office Supply Service</u>	<u>Office Systems Management</u>	<u>Human Resources And Other</u>	<u>House Information Resources</u>	<u>Office of Photography</u>	<u>House Recording Studio</u>	<u>Combined</u>
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
(6,501,412)	(1,477,473)	(4,790,487)	(4,582,390)	(33,654,350)	(289,732)	(1,561,578)	(66,515,859)
350,147	(16,767)	5,587	962,209	7,307,280	52,676	0	9,885,917
47	(222)	(8,162)	1,119	204,966	681	19	197,801
93,514	(154,767)	0	0	0	0	0	(22,016)
(82,272)	605,231	188,821	(755,196)	(5,272,254)	(28,513)	(40,074)	(35,841,003)
(18,374)	(6,635)	(3,428)	8,036	(159,276)	6,282	(18,526)	(3,346,452)
103,430	32,139	171,085	361,433	6,312,271	42,123	287,634	7,949,026
<u>(6,054,920)</u>	<u>(1,018,494)</u>	<u>(4,436,584)</u>	<u>(4,004,789)</u>	<u>(25,261,363)</u>	<u>(216,483)</u>	<u>(1,332,525)</u>	<u>(87,692,586)</u>
<u>(376,118)</u>	<u>(67,388)</u>	<u>(133,224)</u>	<u>(46,050)</u>	<u>(9,065,194)</u>	<u>(14,898)</u>	<u>(10)</u>	<u>(10,059,084)</u>
<u>(376,118)</u>	<u>(67,388)</u>	<u>(133,224)</u>	<u>(46,050)</u>	<u>(9,065,194)</u>	<u>(14,898)</u>	<u>(10)</u>	<u>(10,059,084)</u>
0	0	0	0	0	0	0	797,049,175
0	0	0	0	0	0	0	(60,697,275)
6,431,038	407,484	4,647,819	4,050,839	35,250,328	231,381	454,671	(682,086,018)
0	0	(78,011)	0	(923,771)	0	0	(1,001,782)
<u>6,431,038</u>	<u>407,484</u>	<u>4,569,808</u>	<u>4,050,839</u>	<u>34,326,557</u>	<u>231,381</u>	<u>454,671</u>	<u>53,264,100</u>
0	(678,398)	0	0	0	0	(877,864)	(44,487,570)
0	4,323,591	0	0	0	0	1,733,529	721,418,599
<u>\$ 0</u>	<u>\$ 3,645,193</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 855,665</u>	<u>\$ 676,931,029</u>

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Capitol Police and Other Joint Functions

**Combining Statement of Financial Position
Of the Capitol Police and Other Joint Functions
As of December 31, 1997**

	Attending Physician	Capitol Police	Joint Committee on Taxation	Combined
ASSETS				
Fund Balance with the U.S. Treasury	\$ 1,190,778	\$ 41,299,854	\$ 4,580,317	\$ 47,070,949
Cash	200	21,401	82	21,683
Fund Balance with U.S. Treasury and Cash	1,190,978	41,321,255	4,580,399	47,092,632
Accounts Receivable	0	0	0	0
Interoffice Receivable	0	0	0	0
Appropriations Receivable	0	0	0	0
Advances and Prepayments	3,151	13,312	56,151	72,614
Inventory	0	0	0	0
Property and Equipment, Net	66,522	1,151,579	332,939	1,551,040
Total Assets	\$ 1,260,651	\$ 42,486,146	\$ 4,969,489	\$ 48,716,286
LIABILITIES AND NET POSITION				
Accounts Payable	\$ 6,270	\$ 1,537,253	\$ 35,905	\$ 1,579,428
Interoffice Payable	61,845	387	3,460	65,692
Appropriations Payable	0	0	0	0
Capital Lease Liabilities	0	0	0	0
Intragovernmental Liabilities	0	0	0	0
Accrued Leave and Payroll	0	2,199,919	0	2,199,919
Unfunded Workers' Comp. Actuarial Liability	0	0	0	0
Total Liabilities	68,115	3,737,559	39,365	3,845,039
Unexpended Appropriations	1,126,014	39,796,927	4,597,185	45,520,126
Invested Capital	66,522	1,151,579	332,939	1,551,040
Future Funding Requirements	0	(2,199,919)	0	(2,199,919)
Total Net Position	1,192,536	38,748,587	4,930,124	44,871,247
Total Liabilities and Net Position	\$ 1,260,651	\$ 42,486,146	\$ 4,969,489	\$ 48,716,286

**U.S. House of Representatives
Combining Statement of Operations
Of the Capitol Police and Other Joint Functions
For the Year Ended December 31, 1997**

	Attending Physician	Capitol Police	Joint Committee on Taxation	Combined
REVENUE AND FINANCING SOURCES				
Revenue from Operations				
Sales of Goods	\$ 0	\$ 0	\$ 0	\$ 0
Sales of Services to Federal Agencies	0	0	0	0
Sales of Services to the Public	47,280	0	0	47,280
Interoffice Sales	0	0	0	0
Total Revenue from Operations	47,280	0	0	47,280
Financing Sources				
Appropriations to Cover Expenses	1,267,435	36,810,473	7,036,473	45,114,381
Imputed Financing Source (Note 12)	38,328	5,671,748	1,046,808	6,756,884
Total Revenue and Financing Sources	1,353,043	42,482,221	8,083,281	51,918,545
EXPENSES				
Personnel Compensation	181,898	27,258,038	4,866,849	32,306,785
Benefits	161,528	12,899,478	2,429,090	15,490,096
Postage and Delivery	816	4,851	4,245	9,912
Repairs and Maintenance	50,359	30,462	138,563	219,384
Depreciation and Amortization	151,311	331,333	252,956	735,600
Rent, Utilities, and Communications	0	4,305	186	4,491
Telecommunications	12,817	43,035	115,069	170,921
Supplies and Materials	127,743	711,211	57,245	896,199
Travel and Transportation	5,234	579,323	18,007	602,564
Contract, Consulting, and Other Services	658,199	584,808	80,911	1,323,918
Printing and Reproduction	60	16,614	771	17,445
Subscriptions and Publications	3,078	18,763	119,389	141,230
Cost of Goods Sold	0	0	0	0
Interest on Capital Leases	0	0	0	0
Total Expenses	1,353,043	42,482,221	8,083,281	51,918,545
Excess (Deficiency) of Revenue and Financing Sources Over Expenses				
	\$ 0	\$ 0	\$ 0	\$ 0

**U.S. House of Representatives
Combining Statement of Cash Flows
Of the Capitol Police and Other Joint Functions
For the Year Ended December 31, 1997**

	<u>Attending Physician</u>	<u>Capitol Police</u>	<u>Joint Committee on Taxation</u>	<u>Combined</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (Deficiency) of Revenue and Financing Sources Over Expenses	\$ 0	\$ 0	\$ 0	\$ 0
Adjustments affecting Cash Flow				
Appropriations to Cover Expenses	(1,267,435)	(36,810,473)	(7,036,473)	(45,114,381)
(Increase)/Decrease in Accounts, Interoffice, and Appropriations Receivable	0	0	0	0
(Increase)/Decrease in Advances and Prepayments	7,947	(980)	(1,535)	5,432
(Increase)/Decrease in Inventory	0	0	0	0
Increase/(Decrease) in Accounts, Interoffice, and Appropriations Payable	(2,216)	654,507	(11,110)	641,181
Increase/(Decrease) in Other Accrued Liabilities	0	1,183,586	0	1,183,586
Depreciation and Amortization	<u>151,311</u>	<u>331,333</u>	<u>252,956</u>	<u>735,600</u>
Net Cash Provided (Used) by Operating Activities	<u>(1,110,393)</u>	<u>(34,642,027)</u>	<u>(6,796,162)</u>	<u>(42,548,582)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of Property and Equipment, Net	<u>(27,944)</u>	<u>(719,785)</u>	<u>(209,841)</u>	<u>(957,570)</u>
Net Cash Provided (Used) by Investing Activities	<u>(27,944)</u>	<u>(719,785)</u>	<u>(209,841)</u>	<u>(957,570)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Appropriations Received	1,266,000	41,074,000	5,815,500	48,155,500
Funds Returned to the U.S. Treasury	(160,894)	(4,398,239)	(179,816)	(4,738,949)
Appropriated Funds Allocated	(199,609)	(923,583)	1,385,293	262,101
Principal Payment on Capital Lease Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Cash Provided (Used) by Financing Activities	<u>905,497</u>	<u>35,752,178</u>	<u>7,020,977</u>	<u>43,678,652</u>
Net Cash Provided (Used) by Operating, Investing, and Financing Activities	(232,840)	390,366	14,974	172,500
Fund Balance with U.S. Treasury and Cash, Beginning	<u>1,423,818</u>	<u>40,930,889</u>	<u>4,565,425</u>	<u>46,920,132</u>
Fund Balance with U.S. Treasury and Cash, Ending	<u>\$1,190,978</u>	<u>\$41,321,255</u>	<u>\$ 4,580,399</u>	<u>\$47,092,632</u>

Consolidating Statement of Budget and Actual Expenditures
(Unaudited)

U.S. House of Representatives
Consolidating Statement of Budget and Actual Expenditures
For the Fiscal Year Ending September 30, 1997
(Unaudited)

	<u>Members</u>	<u>Committees</u>	<u>Leadership Offices</u>
BUDGETARY RESOURCES			
Net Fiscal Year 1997 House Appropriations	\$ 363,313,000	\$ 97,802,000	\$ 11,592,000
Fiscal Year 1997 Members Appropriations	<u>74,267,200</u>	-	-
Total Budgetary Resources	<u>437,580,200</u>	<u>97,802,000</u>	<u>11,592,000</u>
EXPENDITURES			
Expenditures, Net of Earned Revenue	358,150,394	93,753,664	10,440,071
Members Salaries and Benefits	<u>73,341,568</u>	-	-
Total Expenditures	<u>431,491,962</u>	<u>93,753,664</u>	<u>10,440,071</u>
Fiscal Year 1997 Resources Remaining Available	<u>\$ 6,088,238</u>	<u>\$ 4,048,336</u>	<u>\$ 1,151,929</u>

<u>Officers and Legislative Offices</u>	<u>Capitol Police and Other Joint Functions</u>	<u>Benefits and Other</u>	<u>1997 Consolidated</u>	<u>1996 Consolidated</u>
\$ 92,576,653	\$ 42,929,000	\$121,863,700	\$ 730,076,353	\$ 716,502,529
<u> -</u>	<u> -</u>	<u> -</u>	<u> 74,267,200</u>	<u> 73,811,600</u>
<u> 92,576,653</u>	<u> 42,929,000</u>	<u> 121,863,700</u>	<u> 804,343,553</u>	<u> 790,314,129</u>
87,232,102	42,374,628	119,946,316	711,897,175	698,816,722
<u> -</u>	<u> -</u>	<u> -</u>	<u> 73,341,568</u>	<u> 72,995,247</u>
<u> 87,232,102</u>	<u> 42,374,628</u>	<u> 119,946,316</u>	<u> 785,238,743</u>	<u> 771,811,969</u>
<u>\$ 5,344,551</u>	<u>\$ 554,372</u>	<u>\$ 1,917,384</u>	<u>\$ 19,104,810</u>	<u>\$ 18,502,160</u>

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Report of Independent Accountants on
**Compliance With Laws and
Regulations**

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**Report of Independent Accountants
on Compliance with Laws and Regulations**

To the Inspector General
U.S. House of Representatives

We have audited the consolidating financial statements of the U.S. House of Representatives (House) as of and for the year ended December 31, 1997, and have issued our report thereon dated July 21, 1998. In that report, we qualified our opinion with respect to the effects of adjustments to the consolidating financial statements, if any, that might have been determined to be necessary had we been able to examine evidence regarding all of the House's assets, liabilities, and costs that may have been incurred by the House during the year ended December 31, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, rules and regulations is the responsibility of the Members and administrative management of the House. As part of obtaining reasonable assurance about whether the consolidating financial statements are free of material misstatement, we performed tests of the House's compliance with certain provisions of laws and House rules and procedures, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Compliance with laws, rules, and regulations at the House is significantly different than it is for Executive Branch departments and agencies. First, many of the laws that apply to the Executive Branch, such as the Federal Managers' Financial Integrity Act of 1982, the Government Management and Reform Act, and the Chief Financial Officers Act of 1990, do not apply to the House. Second, while Executive Branch departments and agencies are subject to regulations that implement their authorizing statutes and to regulations imposed by other agencies, such as the Office of Management and Budget and the Office of Personnel Management, the House is subject to specific laws, its own rules, and to procedures contained in its *Members' Congressional Handbook* and *Committees' Congressional Handbook*.

During our audit we noted three instances where Office of Finance records indicate that certain Members overspent their 1997 Members' Representational Allowance (MRA). The MRA is used to pay for staff salaries, official expenses, and official mail. The *Members' Congressional Handbook* states that Members are personally responsible for the amounts by which they overspend their MRAs.



Except as noted in the preceding paragraph, our tests for compliance with selected provisions of applicable laws, rules, and regulations disclosed no other instances of non-compliance that are required to be reported herein under *Government Auditing Standards* or the U.S. General Accounting Office's *Financial Audit Manual*.

This report is intended for the information of the Inspector General and the Members of the U.S. House of Representatives. However, this report is a public document and its distribution is not limited.

PricewaterhouseCoopers LLP

Arlington, Virginia
July 21, 1998

Report of Independent Accountants
on Management's Assertion
About Internal Controls

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**Report of Independent Accountants
on Management's Assertion About Internal Controls**

To the Inspector General
U.S. House of Representatives

In its Management Report on Internal Controls (Management Report), which is presented at Attachment 1, the office of the Chief Administrative Officer (CAO) of the U.S. House of Representatives (House) has asserted that, except for the material weaknesses in internal controls¹ described in the Management Report on Internal Controls and in paragraph five of this report, the House's internal controls provided reasonable assurance that, as of December 31, 1997, the following objectives were being met:

- Safeguarding assets against loss from unauthorized acquisition, use, or disposition;
- Assuring the execution of transactions in accordance with management authority and with laws and regulations that have a direct and material effect on the consolidating financial statements; and
- Properly recording, processing, and summarizing transactions to permit the preparation of reliable financial statements in accordance with generally accepted accounting principles and to maintain accountability for assets.

We have examined the CAO's assertion included in the Management Report. Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States, and, accordingly, included obtaining an understanding of internal controls over financial reporting, testing, and evaluating the design and operating effectiveness of internal controls, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

An audit of the financial statements conducted in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States, is not designed to detect whether the House's systems are

¹ A material weakness is a condition that precludes the internal controls from providing reasonable assurance that material misstatements in the financial statements will be prevented or detected on a timely basis. Material misstatements are those that, in the judgment of independent accountants, might cause a large dollar impact in the financial statements being audited, or might be qualitatively important to a reasonable person relying on those financial statements. Certain less severe deficiencies in internal controls are considered to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal controls that, in our judgment, could adversely affect the House's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.



year 2000 compliant. Further, we have no responsibility with regard to the House's efforts to make its systems, or any other systems, such as the House's vendors, service providers, or any other third parties, year 2000 compliant or provide assurance on whether the House has addressed or will be able to address all of the affected systems on a timely basis. These are the responsibilities of the Members and administrative management of the House.

Because of inherent limitations in internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of internal controls to future periods are subject to the risk that internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

In our opinion, the CAO's assertion that, except for the material weaknesses in internal controls described in its report, the House's internal controls provided reasonable assurance that, as of December 31, 1997, the three objectives referred to in the first paragraph were being met, is fairly stated, in all material respects, in accordance with the criteria for controls in the Federal government contained in Office of Management and Budget Circular A-123, *Management Accountability and Control*.

As discussed in Management's Report, the following material weaknesses existed in the design or operation of the internal controls of the House at December 31, 1997: (1) accountability for property and equipment (2) calculation and accumulation of employee compensation and benefits; and (3) security over the House's computers and data.

Status of material weaknesses in internal controls

Two of the material weaknesses identified in our report on internal controls for the year ended December 31, 1996, are still considered to be material weaknesses, because steps to correct them are only partially complete. In addition, one reportable condition identified in our report on internal controls for the year ended December 31, 1996 is now considered a material weaknesses because of delays in replacing the House payroll systems.

- The House lacked sufficient information with which to manage and maintain accountability over its property and equipment.
- Poor controls over computers and data exposed the House to the risk of unauthorized transactions, incorrect data, misuse of assets, and loss of data and programs.
- Payroll systems are obsolete and need to be replaced, and the House lacks a centralized system for maintaining time and leave data.

Criteria for assessing progress in correcting material weaknesses

The remainder of this report presents the current status of the thirteen weaknesses in internal controls we identified in our prior report on internal controls. Of the five material weaknesses identified in 1996, two remain material weaknesses; two have become reportable conditions; and one has been otherwise resolved. Of the eight reportable conditions, three remain reportable conditions, three have been otherwise



resolved, and two have been merged and the combined weakness is now considered to be a material weakness. In determining the current status of these weaknesses we applied the following criteria:

Closed	Changes in House operations remedied this weakness or eliminated the operations affected by the weakness.
Otherwise resolved	Changes in the nature of House operations eliminated the significant concerns underlying the weakness.
Substantial progress	New financial system and/or new policies and procedures put in place <i>substantially</i> address the <i>more significant</i> recommendations made in the prior audit.
Some progress	New financial system and/or new policies and procedures put in place <i>partially</i> address the <i>more significant</i> recommendations made in the prior audit.
Limited Progress	Steps taken to address <i>less significant</i> recommendations; more significant recommendations addressed only with <i>proposals</i> or remain open.
Open	<i>No actions</i> taken on the <i>more significant</i> recommendations made in the prior audit, or only initial plans to address these recommendations have been made.

The results of our analysis are presented in Exhibit 1. We based our analysis on a review of the House's progress toward implementing the recommendations made in the prior year. The following criteria were used to assess that progress:

Closed	The House fully implemented the recommended corrective action, or changes in the House operations remedied or eliminated the need for recommended corrective action.
Substantial Progress	The House has <i>substantially</i> addressed the <i>more significant</i> aspects of this recommendation.
Some Progress	The House has <i>partially</i> addressed the <i>more significant</i> aspects of the recommendation.
Limited Progress	The House has made progress on the <i>less significant</i> aspects of the recommendation.
Not Started	The House has taken <i>no action</i> to implement the recommendation.

PricewaterhouseCoopers LP
Arlington, Virginia
July 21, 1998

Exhibit 1 - Summary of Status of Internal Control Findings					
Weakness	Status as of July 21, 1998				
	Substantial Progress	Some Progress	Limited Progress	Open	New Finding
1. The House Lacked Sufficient Information With Which To Manage And Maintain Accountability Over Its Property And Equipment (Material Weakness)		X			
2. Poor Controls Over Computers And Data Exposed The House To The Risk Of Unauthorized Transactions, Incorrect Data, Misuse Of Assets, And Loss Of Data And Programs (Material Weakness)		X			
3. Payroll Systems Are Obsolete And Need To Be Replaced (Material Weakness)		X			
4. Financial Management Continues To Be Hampered By Inadequate Systems, Resources, And Procedures (Reportable Condition)	X				
5. Deficiencies Exist In Budgeting, Monitoring, And Accounting (Reportable Condition)		X			
6. The House Did Not Properly Track The Goods And Services It Ordered, Made Erroneous Duplicate Payments, And Paid Vendors Late (Reportable Condition)		X			
7. Reconciliations Of Total Obligations Generated By Each Entity To Those Recorded In FFS Are Not Performed (Reportable Condition)	X				
8. Access Controls Over The House's New Federal Financial System (FFS) Need Improvement To Provide Effective Security (Reportable Condition)			X		

The following four weaknesses were otherwise resolved during 1997:

Reconciliations of Fund Balance with the U.S. Treasury to the Federal Financial System balances are not routinely documented and House funds held by the U.S. Department of State are not tracked. (Material Weakness)

Current methods of charging costs to Members' allowances obscured the true costs of operating Member offices. (Reportable Condition)

- Lack of information and ineffective control procedures exposed the House to excess costs on its leasing and maintenance agreements. (Reportable Condition)
- Poor funds control put the House at risk of overspending its appropriation. (Reportable Condition)

The following two weaknesses were combined and are now considered to be material weakness 3:

- Late submission and inadequacies in the payroll system added to manual processing and led to approximately \$200,000 in overpayments to employees. (Reportable Condition)
- The House was unable to accurately determine employee benefits due to incomplete leave records. (Reportable Condition)

Weakness 1: The House Lacked Sufficient Information With Which To Manage And Maintain Accountability Over Its Property And Equipment
Summary Status: • Material Weakness

• **Prior Condition**

• **Some Progress Towards Correction**

The House did not maintain accurate and complete records of the property and equipment the House owned and leased. As a result, the Office of Finance did not have all information needed to prepare the House's financial statements and to support management decisions about buying, leasing, and maintaining equipment. This lack of information also increased the risk that loss or theft of equipment could go undetected.

The House did not maintain centralized accounting control over its property and equipment. Instead, responsibility for accounting for property and equipment is dispersed among 10 different entities.

Of the two offices responsible for accounting for most of the House's property and equipment, neither kept property ledgers that met all of the applicable requirements of the Joint Financial Management Improvement Program. Because of weaknesses in the property systems, the House is unable to accurately determine the dollar value of existing property, the dollar value of property acquisitions which occurred during the year, or the dollar value of the asset disposals which occurred during the year. These weaknesses prevent the House from preparing financial statements in full compliance with generally accepted accounting principles, the standards followed by private organizations. Furthermore, these same weaknesses also prevent the House from preparing financial statements in full compliance with the Federal financial accounting standards, which have been developed by the Federal Accounting Standards Advisory Board, and followed by most other Federal government organizations.

The House offices that account for most of the property and equipment are:

- Office Systems Management (OSM), which was responsible for computers, copiers, and other office equipment used by Members, committees, and House Officers; and
- House Information Resources (HIR), including the former Office of Telecommunications now under HIR, which was responsible for computer equipment that supports the House's central electronic data processing environment and for telecommunications equipment used by Members (both in their Washington, DC and district offices), committees, and House Officers.

We found that existing information maintained in property records was inaccurate. In many cases, the actual date equipment was

received, an important and meaningful piece of information for financial statement compilation, was not recorded in property records. Other property records lacked information about the cost of equipment, while others had no cost information at all. In some cases, property records did not include the equipment's disposal date, the estimated useful life, or the depreciation method used to allocate the cost of equipment over its useful life.

Because OSM often does not receive timely information from vendors and Members' offices about the delivery and installation of equipment, the financial records of the House are not updated to accurately reflect the acquisition of equipment which met the capitalization thresholds. As a result, the House had to complete an analysis of payments made during the beginning of 1998 in an attempt to identify items which were held by the House at December 31, 1997, but not recorded in the financial records. The adjustment to the 1997 financial statements for this unrecorded property exceeded \$2.6 million.

Furthermore, the House's financial accounting system, Federal Financial System (FFS), which was used to accumulate all property and equipment purchases made during calendar year 1997 above the House's capitalization threshold, did not reflect accurate financial information about property and equipment acquisitions or equipment leases and maintenance agreements. This can be attributed to several factors:

In entering data into FFS during 1997, Office of Finance often did not distinguish payments for maintenance expenses from payments for leasing costs or from payments for equipment purchases by establishing and using unique budget object class (BOC) codes for the different types of property and equipment transactions. Additionally, unique BOCs were not used for the different capitalization thresholds.

Equipment receipt dates were not recorded.

Often, purchases of several items or pieces of equipment were recorded in FFS as one purchase, thus preventing the accurate application of capitalization thresholds to property and equipment purchases.

As a result, the House was unable to effectively manage and track equipment lease and maintenance agreement costs, identify all acquisitions and disposals, or identify payments on leases that would reduce the House's liability for its capital leases. Property ledgers maintained by other House offices resultantly could not be reconciled to data in FFS.

Finally, the lack of information about equipment the House owned also made it difficult to detect the loss or theft of equipment.

Without comprehensive records of equipment that are reconciled to the financial records and to physical counts, or inventories, of the

property, loss or theft could go unnoticed in an entity as large as the House. This risk was compounded by the various offices' inconsistent approaches to physically counting their property and equipment. Physical inventories, if performed, often were not used to update property inventory listings maintained by the different offices.

Effective January 1, 1998 the House changed its capitalization threshold from \$5,000 to \$25,000 for equipment and computer hardware and from \$500 to \$10,000 for computer software. This change means that only items costing \$25,000 and above (or \$10,000 and above for computer software) will be accounted for in the financial statements as assets. All items of lesser costs will be shown as expenses in the year purchased. This new policy should make it easier for the House to apply adequate internal control from a financial reporting standpoint in future years.

Recommendations

We recommend that the Chief Administrative Officer:

Recommendation	Current Status of Recommendation	Management's Response
<p>1. In accordance with the property and lease policies recently approved by the Committee on House Oversight, and until the new fixed asset and inventory management system is implemented, complete a comprehensive inventory should be completed during 1998 of all capitalized assets, operating leases with terms in excess of one year, and capital leases. In addition, ensure compliance with the new procedures by recording property and lease transactions to the proper Budget Object Class codes and by capitalizing assets as of the date the asset is placed in service.</p>	<p>Status: New Recommendation</p>	<p>CONCUR. Office Systems Management (OSM), House Information Resources (HIR), and Telecommunications will complete a physical inventory of all assets that meet the Office of the Chief Administrative Officer's (CAO) capitalization threshold by December 31, 1998. In addition, all 1998 acquisitions in excess of \$2,000 shall be reviewed by December 31, 1998, to ensure proper BOC usage, and modifications to edit the FFS service date fields will be completed by</p>

November 1998.

The following are prior audit recommendations which were made in previous OIG audit reports. However, as a result of testing performed during the calendar year 1997 audit of the House, we have determined that the weaknesses which underlie these recommendations still exist and that the Chief Administrative Officer should continue to implement the policies and procedures necessary to resolve these weaknesses:

Recommendation	Current Status of Recommendation	Management's Response
<p>2. Ensure that the new financial management system and subsidiary systems are capable of accumulating and providing information with respect to property and equipment, including:</p> <ul style="list-style-type: none"> • cost or value information • description and acquisition date • useful life and depreciation method and amount • scheduled replacement • location • disposal date <p>(OIG Report No. 95-HOC-22, 4.1)</p>	<p>Status: Some Progress</p> <p>Discussion: The House is in the process of procuring a new fixed asset and inventory management system. The Request for Proposal was issued to vendors in March 1998, and vendors submitted bids in April 1998. The House's requirements for the new system includes the need to capture cost/value information, asset description, acquisition date, useful life, depreciation method, depreciation amount, scheduled replacement, and location. The House is expected to select the fixed asset and inventory management system in July 1998. The House should ensure that the new fixed asset and inventory management system, along with the financial management system, is capable of providing information with respect to property and equipment. The House also should ensure that these functionalities are implemented.</p>	<p>CONCUR. OSM and the Office of Finance have ensured that the new fixed assets and inventory system along with the financial management system will be capable of providing information with respect to property and equipment including: cost/value information, asset description, acquisition date, useful life, depreciation method, depreciation amount, and location. The contract award for a new Fixed Asset Management System was signed on August 10, 1998 by the CAO. Included in the contract were requirements that ensured we would be able to track each of the items outlined in this audit recommendation. We believe we have taken <u>appropriate action to close</u></p>
<p>3. Ensure that the new financial management system is configured to prompt Member offices when maintenance or lease payments are being made on equipment over a specified age. (OIG Report No. 95-CAO-17, C.3)</p>	<p>Status: Some Progress</p> <p>Discussion: The recording and tracking of equipment maintenance information is being addressed as a requirement for the new fixed asset and inventory management system, a subsidiary to the accounting system. The Needs Analysis and Requirements Definition document included as requirements of the new system, the capability to generate an automated alert indicating when equipment maintenance costs exceed the original costs of the asset over a specified age and the capability to generate an automated alert indicating when an item's warranty period ends. Bids for the new system were received from vendors in April 1998 and contract award is expected shortly.</p>	<p>this recommendation. CONCUR. OSM will select and implement a commercial-off-the-shelf fixed asset management system. The system selected will be configured to prompt Member offices when payments are being made on equipment over a specified age. The contract award for a new Fixed Asset Management System was signed on August 10, 1998 by the CAO. Included in the contract were requirements which ensured the system was capable of generating, via workflow, an automated alert indicating when equipment maintenance costs exceeds the original cost of the asset over a specified age.</p>

We believe we have taken

		appropriate action to close this recommendation.
4. Ensure that transactions relating to a) purchase of equipment; b) lease of equipment; c) maintenance of equipment; and d) purchase of non-equipment items such as supplies, training, and other services, are properly processed in the correct Budget Object Classes (BOCs), i.e., the correct expense accounts, in FFS. (OIG Report No. 97-HOC-14, 10.9)	<p>Status: Some Progress</p> <p>Discussion: Effective January 1, 1998, the House asserts that the Accounting and Budget departments implemented a revised Budget Object Class code structure. The revision also includes a cross walk of BOCs to the appropriate general ledger accounts. However, testing completed during our audit indicated that BOCs were not used to separately classify the various equipment transactions. Incorrect use of the BOCs will significantly impair the ability of the House to accurately identify and accumulate information on asset acquisitions and disposals, lease payments, non-capitalized equipment purchases, and ordinary repair and maintenance expenditures.</p>	<p>CONCUR.</p> <p>The Office of Finance has developed procedures to analyze monthly equipment and lease transactions in FFS during calendar year 1998 to ensure correct BOC and general ledger (GL) usage. A series of meetings with all CAO offices having procurement authority were initiated in July 1998 to review correct BOC usage. Additionally, separate BOC's have been established for equipment and equipment maintenance and will be effective October 1, 1998.</p>

The following recommendations made during previous audits have been closed because changes in House operations remedied the associated weakness or changes in the nature of House operations eliminated the significant concerns underlying the recommendation:

Recommendation	Current Status of Recommendation
5. Establish a policy stipulating the dollar level and types of purchases that should be capitalized. (OIG Report No. 95-HOC-22, 4.2)	Status: Closed
6. Require an analysis of all leases over a specified dollar amount to determine whether: <ul style="list-style-type: none"> • the leases effectively convey ownership • it is cost-beneficial to enter into the leasing arrangement (OIG Report No. 95-HOC-22, 4.3)	Status: Closed
7. Establish a policy for periodically counting assets with high dollar values. (OIG Report No. 95-HOC-22, 4.4)	Status: Closed
8. Establish formal policies and procedures to evaluate cost and service considerations in deciding whether to lease or buy equipment. (OIG Report No. 95-HOC-22, 12.1)	Status: Closed
9. Establish formal policies and procedures to monitor lease agreements on	Status: Closed

outdated equipment. (OIG Report No. 95-CAO-17, D.1)	
10. Alert House offices when equipment becomes outdated. (OIG Report No. 95-CAO-17, D.2)	Status: Closed
11. Establish formal policies and procedures to compare equipment's maintenance cost to its usefulness. (OIG Report No. 95-CAO-17, C.1)	Status: Closed
12. Use vendor cost and performance information in annual re-negotiations of maintenance and support fees. (OIG Report No. 95-CAO-17, A.3)	Status: Closed

Weakness 2: Poor Controls Over Computers and Data Exposed the House to the Risk of Unauthorized Transactions, Incorrect Data, Misuse of Assets, and Loss of Data and Programs**Summary Status:** • **Material Weakness**

- **Prior Condition**
- **Some Progress Towards Correction**

In prior audits of the House, we identified a number of findings and internal control weaknesses related to the House's then-existing Financial Management System (FMS), its subsidiary financial management systems, and its overall information systems processing environment. Actions have been initiated to address most of the recommendations related to this weakness and, as a result, 30 of the 53 recommendations to the House Information Resources (HIR) have been fully implemented. HIR and, specifically, HIR's Security Office is continuing to aggressively address these findings and develop initiatives such as the mainframe migration project, the year 2000 plan, and HIR reorganization plan to improve the House's information systems processing environment.

On June 4, 1996, the House implemented core components of the Federal Financial System (FFS), a commercial software package, to correct many of the control weaknesses associated with the old FMS accounting system. FFS is located on the mainframe system at the U.S. Geological Survey (USGS), Reston Enterprise Data Services Center (EDSC). USGS maintains the system for the House under the House/USGS Interagency Agreement. The Washington Administrative Service Center (WASC) within the USGS Reston facility acts as a client liaison with the House and provides technical support and services in the following areas:

- telecommunications,
- operations—nightly FFS processing runs,
- user training and application documentation,
- program change management over FFS modifications,
- mainframe security administration,
- disaster recovery and planning,
- performance monitoring, and
- disk space management.

Except for the FFS processing performed within Office of Finance at the House and at the WASC service center, HIR maintains the information systems environment surrounding all financial-related and other information systems, including the old FMS system that is still used to process non-Member payroll. The various House

applications provide significant data to FFS and Members, thus requiring adequate controls to prevent unauthorized access, changes to data and programs, and transactions. The following points summarize the status of broad control issues, including the progress towards implementing the audit recommendations related to HIR's operations:

- House Information Security Policies were approved by the Committee on House Oversight and implemented. These policies address general guidelines for protecting systems from unauthorized use and specific security guidelines for Internet/Intranet and remote access to systems and networks. Formal procedures for reporting system security related incidents are also included in the policies. The HIR Security Office has also implemented compliance and enforcement tools and security awareness training along with the policies for a comprehensive data security program.
- The HIR Security Office collaborated with other areas of HIR to reduce access to sensitive ACF2 privileges and libraries. Special ACF2 privileges including NON-CNCL were restricted to individuals consistent with their job responsibilities. Further, the HIR Security Office implemented procedures to log and review use of these privileges.
- Not all applications, financial and other, are governed by ACF2 controls. The following weaknesses relating to passwords and logs exist for these applications:
 - three character password length,
 - no password changes required,
 - no automatic suspension after invalid attempts,
 - no log off after period of inactivity, and
 - no logs of unauthorized attempts.
- A comprehensive contingency plan has not been developed and documented. The CHO has approved a contract award to perform risk assessment and disaster recovery planning; however, the contract's scope is currently being re-negotiated and work has not begun. Without a contingency plan, the risk exists that the House will not be able to adequately recover from an extended service interruption. Additionally, the plan needs to be tested to identify any deficiencies that may be present that could reduce the effectiveness of the plan in the event of an interruption.

- HIR is addressing the critical Year 2000 issue. In September 1997, HIR procured the services of a project manager to lead the overall effort. Since that time, HIR has inventoried and assessed all of its computer hardware, information systems, telecommunications hardware and software, and ad hoc applications used in Member and House offices. In December 1997, HIR developed a Year 2000 Program Plan and has published quarterly updates since then. In that plan, HIR established 33 Year 2000 projects to manage the process of renovating and testing noncompliant systems and hardware.

The table which follows summarizes the status of recommendations made to the Chief Administrative Officer in our prior report on internal controls and various OIG audits of House information systems operations and controls, including:

- ***House Computer Systems Were Vulnerable to Unauthorized Access, Modification, and Destruction*** (Report No. 95-CAO-18, dated July 18, 1995).
- ***The Management And Control Of The House's Information Systems Operations Should Be Improved To Better Meet Members' Needs*** (Report No. 95-CAO-19, dated July 18, 1995).
- ***The House Needs To Follow A Structured Approach For Managing And Controlling System Development Life Cycle Activities Of Its Computer Systems*** (Report No. 95-CAO-20, dated July 18, 1995).
- ***U.S. House of Representatives Audit of Financial Statements for the 15-Month Period Ended December 31, 1994*** (Report No. 95-HOC-22, dated July 18, 1995).
- ***Improvements Are Needed In The Management And Operations Of The Office Of The Chief Administrative Officer*** (Report No. 96-CAO-15, dated December 31, 1996).
- ***Audit of Financial Statements for the Year ended December 31, 1995*** (Report No. 96-HOC-05, dated July 30, 1996).
- ***HIR Management Practices Undermine The House's Ability To Keep Pace With Technological Changes*** (Report No. 97-CAO-09, dated May 8, 1997).
- ***Direct Access Storage Device Management Can Be Improved*** (Report No. 97-CAO-10, dated May 8, 1997).

- **Internal Controls Over Equipment Inventory Systems Can Be Improved** (Report No. 97-CAO-11, dated July 28, 1997).
- **House Needs To Refocus Its Efforts To Meet The Year 2000 Deadline** (Report No. 97-CAO-13, dated September 29, 1997).

Recommendations

The following are prior audit recommendations which were made in previous OIG audit reports. However, as a result of testing performed during the calendar year 1997 audit of the House, we have determined that the weaknesses which underlie these recommendations still exist and that the Chief Administrative Officer should continue to implement the policies and procedures necessary to resolve these weaknesses:

Recommendation	Current Status of Recommendation	Management's Response
<p>1. Prohibit programmers from accessing actual data and ensure they have access only to the programs they are responsible for changing in a non-production environment. (OIG Report No. 95-HOC-22, 8.7)</p>	<p>Status: Substantial progress</p> <p>Discussion: The staff position for quality assurance/configuration management within the Security Office has been approved as part of the reorganization of the HIR Immediate Office. This staff position will focus on formalizing change control and quality assurance policies and procedures.</p>	<p>CONCUR. HIR developed program change control procedures for some applications and the HIR Security Office currently performs biannually reviews of ACF2 access rules for production libraries and applications. The Office of the CAO has implemented the proper change control procedures developed for all major programming efforts. We believe we have taken appropriate action to close this recommendation.</p>
<p>2. In conjunction with the overall action plan for systems update and integration, improve data entry controls with respect to weaknesses in entering data such as incomplete data for purchasing equipment and a lack of approved vendor codes. (OIG Report No. 95-HOC-22, 8.9)</p>	<p>Status: Some progress</p> <p>Discussion: On November 4, 1997, the Washington Area Service Center (WASC) delivered to Office of Finance an analysis outlining recommendations for improving data entry accuracy in FFS and related software modifications. The memo addressed issues in data entry accuracy, duplicate payments, and vendor record management. Office of Finance has taken steps to remove duplicate vendor records and has prepared draft vendor Table Management procedures providing guidelines for maintaining vendor</p>	<p>CONCUR. Office of Finance has updated manuals to reflect appropriate data entry operational policies and procedures that were then used to conduct training for CAO data entry users. Seventy staff completed training on all aspects of FFS data entry. We believe we have taken appropriate action to close this recommendation.</p>

	records. Office of Finance has also defined training requirements and is preparing a training plan, which includes policies and procedures for data entry.	
3. Update user manuals for all the House's significant systems in any action plan for systems improvement. (OIG Report No. 95-HOC-22, 8.10)	Status: Limited progress Discussion: Currently, all systems have a basic set of system/user documentation. Those systems that remain at the House after the mainframe migration initiative and year 2000 efforts will be required to have updated documentation manuals.	CONCUR. HIR will update the system/user manuals for all major systems that remain after the mainframe migration and Year 2000 efforts are substantially complete.
4. Review staff positions to determine the associated level of risk and need for employee security clearances. (OIG Report No. 95-CAO-18, A.7)	Status: Some progress Discussion: The HIR Security Office has drafted a policy HISPOL 7.0, the U. S. House of Representatives Information Security Policy for Identifying Requirements for Employee Clearances that has been submitted to the CHO for approval. This policy establishes security categories and defines the extent of background investigation necessary for each security category. The policy also provides examples of staff positions that would be associated with each security category. At the CAO's request, the Sergeant at Arms currently is determining the resources required to implement the proposed clearance policy.	CONCUR. HIR has written an internal security clearance policy to cover HIR employees and is now working with staff from Human Resources (HR) to prepare a proposal for the approval of the Committee on House Oversight to implement the proposed security policy and modify the appropriate Position Descriptions.
5. Implement procedures for the ongoing maintenance of the business impact analysis and business recovery plan as well as comprehensive, routine testing of the plan. (OIG Report No. 95-CAO-18, B.4)	Status: Some Progress Discussion: A statement of work was drafted for a contractor to perform a disaster recovery effort for HIR. The CHO approved the award of the risk assessment and disaster recovery effort to Troy Systems, but directed that the scope of work be adjusted to focus on House "mission critical" systems and to include the Clerk, Sergeant at Arms and Parliamentarian offices. The modification of the statement of work is currently being negotiated.	CONCUR. A contractor has commenced the process of analyzing the business recovery process including the application priority for business continuity planning. A disaster recovery plan and testing process will be developed by HIR to incorporate the information identified within the recommendation.
6. Establish the following controls to improve HIR's management and implementation of ACF2 security:	Status: Substantial Progress Discussion: The decision to migrate	CONCUR. HIR is working to complete the ACF2 migration review to

<ul style="list-style-type: none"> Implement ACF2 over all online mainframe applications, including FMS. 	<p>the remaining applications to ACF2 will be made once the mainframe migration review is completed. This analysis will provide a schedule for future migrations and justifications for the remaining applications not being migrated.</p>	<p>determine which systems are critical to access through ACF2. Upon completion of this review, HIR will then migrate the identified systems. Based upon current Y2K and mainframe migration applications timelines, ACF2 control of the remaining applications are targeted to be completed by the end of 1998.</p>
<ul style="list-style-type: none"> Administer all passwords through ACF2. Justify the need for all special ACF2 access privileges. 	<p>Status: Substantial Progress</p> <p>Discussion: Passwords are not administered by ACF2 for the CICS regions that have not been defined under ACF2.</p> <p>Status: Closed</p> <p>Discussion: The HIR Security Office, working with the Enterprise Computing and the Communications Groups, reviewed access privileges and restricted access to individuals consistent with job responsibilities.</p>	
<ul style="list-style-type: none"> Limit the NON-CNCL privilege to only those users who require this access. 	<p>Status: Closed</p> <p>Discussion: The HIR Security Office reduced the number of users with the NON-CNCL privilege. Further, the security office monitors the use of the privilege on a daily basis.</p>	
<ul style="list-style-type: none"> Review and restrict, where appropriate, ACF2 access privileges to production libraries. <p>(OIG Report No. 95-CAO-18, C.4)</p>	<p>Status: Closed</p> <p>Discussion: The HIR Security Office, working with the Enterprise Computing Group reviewed access privileges and restricted access to those individual consistent with job responsibilities.</p>	
<p>7. Develop and implement chargeback rates that reflect current processing costs. (OIG Report No. 95-CAO-19, D.1)</p>	<p>Status: Limited Progress</p> <p>Discussion: HIR has established a rate to bill internal customers for some services. This rate is currently being evaluated and is not yet approved. HIR is currently in the planning stages of conducting a chargeback analysis of all rates. However, until the HIR</p>	<p>CONCUR. HIR is in the process of collecting cost and usage data to analyze the resources used by internal and external customers relative to the mainframe. HIR will use the cost and usage data to construct chargeback costs that are fair to our customers</p>

	reorganization is completed and key staff for the HIR immediate office hired, new chargeback rates will not be determined or implemented.	and enable HIR to recover the cost of the resources provided. A proposal containing a recommendation based on the findings will be submitted to the <u>Committee on House Oversight</u>
8. Establish policies and detailed procedures covering the maintenance, administration, and documentation of equitable chargeback rates and billing processes for internal and external customers. (OIG Report No. 95-CAO-19, D.2)	Status: Some Progress Discussion: See discussion of Recommendation 9. The current rates are documented but will need to be updated once the new policy is approved and rates implemented.	CONCUR. Using the results from Recommendation 7 above, HIR will document and propose policies for the approval by the Committee on House Oversight which will ensure the continuing reality, fairness, and adequacy of the proposed rates for mainframe use and support on an annual basis.
9. Review the overall HIR management structure to ensure that all major projects are properly planned, organized and coordinated effectively, and approved by the CHO. (OIG Report No. 96-CAO-15, C.5)	Status: Some Progress Discussion: A strategic assessment for HIR was prepared by an outside contractor in December 1997. The study provided a basis for implementing a management structure reorganization using a project module and a project management methodology. HIR is currently developing a request to reorganize for submission to the CHO.	CONCUR. HIR has developed a complete reorganization plan that provides for sound project management and coordination. The plan was approved by the CHO on July 30, 1998. We believe we have taken appropriate action to close this recommendation.
10. Develop and provide training for directors and technical staff in order to implement the newly developed project management policies and procedures. (OIG Report No. 96-CAO-15, D.2)	Status: Some Progress Discussion: HIR conducted training on Microsoft 98, a project management tool, in March 1998. The individuals on the year 2000 project were the first HIR personnel to receive the software and attend the training classes. Further, formal training in project management policies and procedures will be offered to personnel after the reorganization is complete.	CONCUR. HIR conducted preliminary project management training during 1998. Based on the recent approval of the HIR reorganization by the Committee House Oversight, formal training in project management policies and procedures will be offered to appropriate personnel. This training should be completed by September 30, 1998.
11. Adopt an implementation plan that balances the need for an aggressive timeline with user needs, as well as hardware, software, personnel and budget requirements. (OIG Report No. 96-CAO-15, E.2)	Status: Some Progress Discussion: A Mainframe Migration Options Study was conducted by a contractor to the OIG for the House in 1997. A newly formed mainframe migration team began meeting in April 1998 to validate the recommendations from this study, select an	CONCUR. HIR has recently formed a mainframe migration team that will validate recommendations from Price Waterhouse's "Mainframe Migration Options Study", select an implementation plan, and prepare contingency plans and

	<p>implementation plan and prepare contingency plans and budget requirements. The migration is tentatively scheduled to occur in the third quarter of fiscal year 1999.</p>	<p>budget requirements. The migration is tentatively scheduled to occur in the third quarter of fiscal year 1999.</p>
<p>12. Develop a detailed HIR strategic and operational plan based on the Information System Planning Process (ISPP) vision. These plans should project future issues on a three-year basis and should be updated annually. (OIG Report No. 97-CAO-09, A.1)</p>	<p>Status: Some Progress</p> <p>Discussion: The ISPP has been superseded by the December 1997 House Information Resources Strategic Assessment prepared by an outside contractor. The Strategic Assessment recommends the development of an Information Technology Strategic Plan based on the CAO strategic plan and the HIR Charter (both currently under development). Once developed, the plan will be updated annually.</p>	<p>CONCUR. The Office of the CAO has developed a five-year strategic plan that encompasses all CAO operational units including HIR. This plan will be used by the Office of the CAO to project future issues on a five-year basis and will be updated annually. We believe we have taken appropriate action to close this recommendation.</p>
<p>13. Formalize a plan for developing and/or revising policies, standards, procedures, and guidelines which includes the following actions:</p> <p>Formalize a listing of the minimum policies that HIR will initially schedule for development along with the timelines and delegations of responsibility, and submit it to the CHO, through the CAO, for approval. Focus the initial policy development on HIR issues and overall standardization of system policies across the House.</p> <ul style="list-style-type: none"> • Revise and update the existing standards, procedures, and guidelines as they correspond to the existing and new policies. • Formalize the approval and comment process for policies. <p>(OIG Report No. 97-CAO-09, C.2)</p>	<p>Status: Some Progress</p> <p>Discussion: House Information Resources plans to establish policies where they are lacking. It will begin by formalizing a list of minimum topics which need policy development including the areas of project management, planning and budgeting, service requests, quality assurance, change control, file-naming conventions for Chief Administrative Officer production computer systems, and security awareness training for Chief Administrative Officer employees. House Information Resources' project plans will include expected completion dates and appropriate delegations of responsibility. House Information Resources will initially focus on providing policies and procedures for House Information Resources activities, projects that provide Chief Administrative Officer-wide support, and Chief Administrative Officer production systems that provide House support. Where appropriate, House Information Resources will provide input or guidance in the standardization of system policies across the House. House Information Resources will also review and revise existing standards, procedures, etc. that correspond to existing and new</p>	<p>CONCUR. HIR is finalizing a plan for the development and/or revision of HIR policies, standards, procedures, and guidelines which addresses each of the items identified in this recommendation.</p>

	<p>policies. They will work with the Chief Administrative Officer to establish formal procedures for <u>commenting on policies.</u></p>	
<p>14. Establish and maintain a central repository in HIR for all approved information systems policies, standards, procedures, and guidelines. (OIG Report No. 97-CAO-09, C.3)</p>	<p>Status: Limited Progress</p> <p>Discussion: The CHO-approved reorganization plan of HIR's Immediate Office includes a position for a strategic planning officer. This position will be responsible for the central repository of all policies, standards, procedures, and guidelines.</p>	<p>CONCUR. HIR has recently hired a Planning Manager who will be responsible for developing a central repository of all HIR policies, standards, procedures, and guidelines. This project will be completed by the end of August, 1998.</p>
<p>15. Develop procedures that limit access authority to J010 and J020 transactions to authorized personnel only. (OIG Report No. 97-CAO-11, D.1)</p>	<p>Status: Substantial Progress</p> <p>Discussion: Office Systems Management (OSM) indicated that there are two "pages" in screen J020. Only the users with access level 3 are able to access J020's second "page", the area where an employee's access level is set or changed. Similarly, only these level 3 users can access screen J010 which leads to screen J015, the screen where the password to execute certain protected transactions can be set or changed. However, OSM is still addressing which employees need to be assigned access level 3</p>	<p>CONCUR. OSM has verified that only individuals whose official position entails the need to have access to screens J010 and J020 has been granted the access level of 3. OSM has also formulated and implemented operating procedures that are now used to limit the access authority to J010 and J020 transactions to authorized personnel only. We believe we have taken appropriate action to close this recommendation.</p>
<p>16. Develop monitoring procedures that require continuous review of password protected transactions and require follow-up and documented review of activity against such transactions. (OIG Report No. 97-CAO-11, D.2)</p>	<p>privileges.</p> <p>Status: Substantial progress</p> <p>Discussion: HIR implemented an on-line audit trail report in July 1997. This report displays information such as the transaction type, the time that the transaction occurred, the description of the transaction, and the user and terminal identification numbers. The OSM's Acquisition Management division periodically reviews this report, however, associated procedures have not been documented.</p>	<p>CONCUR. OSM has developed appropriate monitoring procedures to serve as a guideline in this review process that addresses issues such as the frequency of the review and items that need to be reviewed. A manual log has also been developed to serve as supporting documentation that confirms the performance of the review process. Finally, OSM will now record exceptions discovered during the review and will further investigate the exceptions. We believe we have taken appropriate action to close this recommendation.</p>
<p>17. Review and update employee information via transaction J020</p>	<p>Status: Some Progress</p>	<p>CONCUR. OSM has completed the</p>

<p>on a periodic basis and verify employee access levels for each RIC and mainframe application screen they can access. (OIG Report No. 97-CAO-11, D.4)</p>	<p>Discussion: OSM began the periodic review and update of employee information via transaction J020 as of June, 1997. OSM plans to implement a new screen, J030 that was developed by HIR to replace and simplify the review and update process. The J030 screen will be used monthly by the Indicators/Budget Analysts to monitor the accuracy of the information and access level of OSM employees. The Indicators/Budget Analyst will also be responsible for the update of employee access level information.</p>	<p>development and testing for screen J030 and put this screen into operation. In addition, audit tests will be performed to confirm that screen J030 is effective in the review and update process of employees' access level information. Finally, a log of the review and update process is now kept as evidence of the implementation of the recommended procedures. We believe we have taken appropriate action to close this recommendation.</p>
<p>18. Require HIR personnel be restricted from making changes to the inventory production system without appropriate testing and authorized documentation from designated OSM management. (OIG Report No. 97-CAO-11, D.5)</p>	<p>Status: Substantial Progress</p> <p>Discussion: Office Systems Management has formulated a procedure that requires any change in the OSM system be initiated by a written memo or email from the Director of OSM to the Director of HIR. This authorization is followed by the creation of a new program or modification of the existing system. The new/changed program is tested by HIR employees before being demonstrated to OSM. Once OSM has inspected and approved the new/changed program, HIR will move the program to the production system. OSM is in the process of incorporating these procedures into its operating policies and disseminating this information to HIR and OSM employees.</p>	<p>CONCUR. OSM has incorporated a newly developed procedure into its operating policies and disseminated this information to HIR and OSM employees. To ensure the compliance of the procedure, subsequent testing regarding future changes in the system will be carried out by OSM to validate that the procedure is operating as expected. A procedure has also been developed to ensure that HIR logs and notifies OSM of any changes made to the system. We believe we have taken appropriate action to close this recommendation.</p>
<p>19. Establish formal project management controls and techniques as follows:</p> <ul style="list-style-type: none"> • Define the role of the year 2000 project leader and establish it as a full-time position • Prepare a Year 2000 charter which formally assigns the authority and responsibilities for the Year 2000 initiative to the project leader and staff within HIR, and defines the project leader roles and 	<p>Status: Substantial Progress</p> <p>Discussion: HIR issued an RFP and awarded a purchase order and statement of work to SAIC for year 2000 project planning on September 29, 1997. The Year 2000 Program Assessment was completed in December with quarterly updates planned. A detailed plan is scheduled for 1998 that will specify HIR staff responsibilities and provide an in-depth effort analysis and resources requirements.</p>	<p>CONCUR. Based on compilation and review of the activity against the individual items identified in this finding, HIR considers that all items have been addressed and should be closed. Detailed descriptions of status and activity for this finding and other IG issues related to Y2K program management are continuously reviewed and made available in the Y2K Program Plan submitted to the CAO and the Committee on House Oversight on a quarterly basis. We believe we have</p>

<p>responsibilities with respect to organizations/activities outside HIR whose systems may be affected by the Year 2000 problem</p> <ul style="list-style-type: none"> • Institute a status reporting mechanism to inform upper management of Year 2000 progress • Conduct a detailed level of effort analysis which estimates the resources needed to complete the initiative • Purchase software tools and secure a contractor, as necessary, to assist with conversions and testing • Determine whether all systems are needed and on which platform they will reside • Attend the CIO Council Subcommittee of Year 2000, as appropriate. <p>(OIG Report No. 97-CAO-</p>		<p>taken appropriate action to close this recommendation.</p>
<p>13, 1) 20. Revise and prepare follow-up document(s) to the Year 2000 plan which include the following activities:</p> <ul style="list-style-type: none"> • Prepare a schedule of Year 2000 tasks (e.g., PERT chart concept) showing milestones and interdependencies of issues/organizations. • As necessary, re-prioritize and accelerate out-year projects in the Year 2000 plan to meet remaining government milestones. • Develop detailed implementation plans for each system to be converted. 	<p>Status: Some Progress</p> <p>Discussion: The Year 2000 project Manager issued a "Year 2000 Program Assessment" in December 1997 and will be producing quarterly updates.</p>	<p>CONCUR. Items A through D have been properly addressed and closed by the Office of the CAO. For item E, HIR is preparing a schedule of Year 2000 tasks showing milestones and interdependencies, developing testing strategies, plans, and milestones, re-prioritizing and accelerating out-year projects in the Year 2000 plan to meet remaining government milestones, developing detailed implementation plans for each system converted, and developing and submitting to the Committee on House Oversight a Year 2000 follow-on document that addresses the last three phases of the Year</p>

<ul style="list-style-type: none"> • Expediently develop a follow-up document to the Year 2000 plan that addresses, in detail, the last three phases of the Year 2000 effort for review and approval by the CHO. • In preparing the follow-up document develop testing strategies, plans, milestones, and ensure testing capacity is available, and quality assurance is an integral element. <p>(OIG Report No. 97-CAO-13, 2)</p>		2000 effort.
<p>21. As necessary, revise the Year 2000 cost estimates and prepare revised budget requests based on these new figures. (OIG Report No. 97-CAO-13, 3)</p>	<p>Status: Substantial Progress</p> <p>Discussion: HIR's 1998 and 1999 budget requests included Year 2000 estimates.</p>	<p>CONCUR. In June, 1998, HIR completed the Year 2000 project plan update including a revised cost estimate for the entire Year 2000 project and incorporated Year 2000 project figures in HIR's 1999 reprogramming requests. We believe we have taken appropriate actions to close this recommendation.</p>
<p>22. Coordinate data exchange issues with the external organizations that interact with the House's systems. (OIG Report No. 97-CAO-13, 4)</p>	<p>Status: Some Progress</p> <p>Discussion: The Year 2000 project manager is maintaining contact with the Legislative branch throughout all phases of the Year 2000 project.</p>	<p>CONCUR. HIR will continue to coordinate with the Legislative branch throughout the Year 2000 compliance efforts. An inventory of the files that are exchanged with these outside organizations has been compiled, items on this inventory are being monitored, and a dialog with the outside organizations will be maintained. Documentation on these outside organization items included on this inventory will be published in September 1998.</p>
<p>23. Expedite decisions regarding OSM and FMS Payroll replacement efforts, closely monitor these activities to ensure timely completion, and prepare</p>	<p>Status: Substantial Progress</p> <p>Discussion: HIR has obtained additional funding for the Payroll and OSM replacements. Project managers</p>	<p>CONCUR. Project managers currently closely monitor OSM and FMS Payroll replacement activities to ensure timely completion and</p>

contingency plans, as necessary. (OIG Report No. 97-CAO-13, 6)	have been assigned to each replacement task and contractors have been retained to complete the requirements analysis for each project. Further, the OIG is providing assistance regarding both acquisitions and contingency planning activities.	have developed appropriate contingency plans. We believe we have taken appropriate action to close this recommendation.
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The following recommendations made during previous audits have been closed because changes in House operations remedied the associated weakness or changes in the nature of House operations eliminated the significant concerns underlying the recommendation:

Recommendation	Current Status of Recommendation
24. Prepare and provide a document and computer security awareness training to all employees stating the password policies regarding not sharing passwords or writing them in a conspicuous place, and regarding selecting and changing a password, logging off, checking for viruses, and prohibiting the use of unauthorized software. (OIG Report No. 95-HOC-22, 8.3)	Status: Closed
25. Freeze access after three attempts at unauthorized access are made from any one terminal, individual, account, or file. (OIG Report No. 95-HOC-22, 8.4)	Status: Closed
26. Establish controls to validate all dial-in access. (OIG Report No. 95-HOC-22, 8.6)	Status: Closed
27. Enhance systems within the House that transfer data to one another so that they automatically reconcile the data sent and received. (OIG Report No. 95-HOC-22, 8.8)	Status: Closed
28. Implement a formal, comprehensive data security program. (OIG Report No. 95-CAO-18, A.1)	Status: Closed
29. Establish a plan for expanding the data security function to include broader authority to address security on all office-level systems. (OIG Report No. 95-CAO-18, A.3)	Status: Closed
30. Implement an information security awareness program to communicate employee and vendor security responsibilities. (OIG Report No. 95-CAO-18, A.4)	Status: Closed
31. Implement a data security compliance structure and enforcement mechanism. (OIG Report No. 95-CAO-18, A.5)	Status: Closed
32. Implement a formal risk assessment model and data classification scheme. (OIG Report No. 95-CAO-18, A.6)	Status: Closed
33. Establish vendor contracts that include provisions to support House security standards, policies, and procedures. (OIG Report No. 95-CAO-	Status: Closed

18, A.8)	
34. Implement a comprehensive disaster plan. (OIG Report No. 95-CAO-18, B.1)	Status: Closed
35. Implement and update the business impact analysis. (OIG Report No. 95-CAO-18, B.2)	Status: Closed
36. Evaluate backup and business recovery alternatives. (OIG Report No. 95-CAO-18, B.3)	Status: Closed
37. Implement appropriate physical and environmental controls surrounding computer equipment and facilities. (OIG Report No. 95-CAO-18, C.3)	Status: Closed
38. Enhance controls surrounding CMS systems to ensure that users can only access data through the designed application features and not by other means that circumvent the application system. (OIG Report No. 95-CAO-18, C.6)	Status: Closed
39. Develop a proposal for a reorganization of HIR, for approval by the CHO to: <ul style="list-style-type: none"> • Consolidate and streamline systems development into one system development division or integration group. • Implement an independent quality assurance function. • Staff the change control administrator position. (OIG Report No. 95-CAO-19, B)	Status: Closed
40. Perform a cost-benefit analysis to determine whether existing HIR systems that compete with commercially available off-the-shelf packages should continue to be maintained by HIR, and if not, present a migration plan to the CHO. (OIG Report No. 95-CAO-20, B.2)	Status: Closed
41. Develop detailed project management policies and procedures based on a formal SDLC methodology that establishes a structured approach for managing and implementing information systems projects. (OIG Report No. 96-CAO-15, D.1)	Status: Closed
42. Ensure that all systems development projects are managed according to these project management policies and procedures. (OIG Report No. 96-CAO-15, D.3)	Status: Closed
43. Conduct a comprehensive needs analysis and cost/benefits analysis to determine the best approach to mainframe migration. (OIG Report No. 96-CAO-15, E.1)	Status: Closed
44. Prepare a comprehensive strategy addressing the potential impact of the Year 2000 issue. (OIG Report No. 96-CAO-15, F)	Status: Closed
45. Re-evaluate the HIR organization based on the needs identified in the short and long-term plans resulting from Recommendation A.1. OIG	Status: Closed

Report No. 97-CAO-09. (OIG report No. 97-CAO-09, A.2)	
<p>46. In concert with Recommendation A.2:</p> <ul style="list-style-type: none"> • Update position descriptions and formally document the authority and responsibility of key management staff. • Develop adequate performance measurement indicators that incorporate all HIR activities and provide a meaningful basis for individual evaluations and career advancement. • Submit a formal proposal to the CAO containing full justification for any proposed changes and a complete documentation package suitable for presentation to the CHO for review and approval. 	Status: Closed
<p>(OIG Report No. 97-CAO-09, A.3)</p> <p>47. Develop and implement a standard methodology that outlines the minimum requirements that a policy must contain, including the elements of a policy, as stated in the finding. (OIG Report No. 97-CAO-09, C.1)</p>	Status: Closed
<p>48. Establish enterprise-wide dataset naming convention standards which require, at a minimum: uniquely identified datasets; the identification of the owner of each dataset; and data management and security controls that distinctly identify the category, system, subsystem, environment, function, type, and content of each dataset in the system. (OIG Report No. 97-CAO-10, A.1)</p>	Status: Closed
<p>49. Require compliance with the dataset naming convention standards for all newly created datasets. (OIG Report No. 97-CAO-10, A.2)</p>	Status: Closed
<p>50. Establish and commence execution of a plan, including interim target dates, to systematically convert all dataset names in a phased approach, to comply with the new naming convention standards. Consideration should also be given to starting this exercise with the scheduled maintenance process that is already in place. (OIG Report No. 97-CAO-10, A.3)</p>	Status: Closed
<p>51. Establish standards and procedures that require each ACF2 dataset rule to comply with naming convention standards. (OIG Report No. 97-CAO-10, A.4)</p>	Status: Closed
<p>52. Comply with Recommendation 1 above by implementing an SDLC approach to maximize inventory consolidation by:</p> <ul style="list-style-type: none"> • identifying all inventory systems (the systems discussed in this report may not be all inclusive). • conducting a modified requirements analysis of those inventory systems at the data element level to identify any changes needed to optimize compatibility with one another. • determining which inventory systems can be readily consolidated; that would serve as temporary subsidiary feeder systems; and 	Status: Closed

<p>those, if any, that must stand-alone; reviewing available off-the-shelf software and/or contacting other government entities to determine availability of consolidated inventory systems.</p> <p>(OIG Report No. 97-CAO-11, A.3)</p>	
<p>53. Redesign the J010 transaction screen so that a separate path is required to access the password and transaction prompt function. Modify the password procedure and require confirmation of the current password before allowing a password change. (OIG Report No. 97-CAO-11, D.3)</p>	<p>Status: Closed</p>

Weakness 3: Payroll Systems Are Obsolete And Need To Be Replaced**Summary Status:** • **Material Weakness**• **Prior Condition**• **Some Progress Towards Correction**

Because of inefficiencies in the system used to process payroll for Members, and the system used to process payroll for non-Members, House staff are regularly required to make manual calculations and adjustments to process the House's payroll. Because of inefficiencies with the existing system, several employees were overpaid during 1997. Also, the House was required to issue numerous supplemental payments to augment underpayments to House employees. In addition, the Chief Administrative Officer (CAO) has stated that both payroll systems, Members' and non-Members', are not Year 2000 compliant. A Request For Quotes (RFQ), to implement a new payroll/human resources system, is currently being developed to replace both of the existing systems, with plans to award the contract during November 1998. The CAO has acknowledged that this new system will not be implemented prior to December 31, 1999 and is has developed a contingency plan.

We have noted significant inefficiencies with the House's Financial Management System (FMS), non-Member, payroll system. Specifically:

- If an employee changes from non-permanent to permanent status in a given month, the FMS payroll system automatically calculates the Federal Employees Retirement System (FERS) deduction for the entire month including the portion of the month in which the individual was a non-permanent employee, thereby requiring a manual adjustment to the system for reversal of the FERS deduction.
- The FMS payroll system does not perform all necessary payroll calculations, therefore manual calculations are needed for certain actions such as earned income credits, garnishments, deductions for retroactive adjustments, multiple annuitants, part-time child care employees, Government portion of Civil Service Retirement System (CSRS) - Offset once the employee's maximum Federal Insurance Contribution Act (FICA) level has been reached, and Government portion of FERS.
- Once adjustments to the FMS payroll system-generated Payroll Certification report have been made (i.e., handwritten checks, voids, adjustments, and suspense items), the report cannot be re-run to reflect the adjustments. Payroll Counselors must manually "mark up" the original report to reflect the changes to these reports, which the employing entity is required to certify as being valid. The current FMS payroll system, used for non-Members, does not have the ability to control and account for time and leave data. As a result, overtime, compensatory time, and annual and sick leave benefits to which employees were entitled had to be manually calculated.

In addition, House employees who were terminated during the year and employees whose salaries had decreased during 1997, were overpaid by approximately \$318,000. By expending additional resources, the House has been able to obtain refunds for nearly all of the overpayments made during 1997. Also, the House distributed approximately 3,000 supplemental paychecks, amounting to

\$1.72 million, to correct transactions that were submitted to Office of Finance past the deadline for submitting salary changes and other related changes in employee status. Overpayments and supplemental payments occurred because:

- Offices submitted salary changes after the published deadline.
- Paperwork for newly appointed employees is not due to Human Resources until the end of the month, which is too late to process the new employees through the regular payroll system.
- The Office of Human Resources prepared payroll checks for employees before the end of the month for work completed during that month.

A policy option typically used by most organizations to compensate for these types of weaknesses is to have a lag of at least one week between the end of the pay period and the date paychecks are produced. All general schedule employees in the Federal government are paid on a one week lag basis. This minimizes the risk that paychecks would be issued before changes to pay rates and employment status have been processed.

The AS/400 system, that processes Members' payroll, operates independently of the FMS payroll system that processes payroll for other House employees. The AS/400 system suffers from many of the same shortcomings as the FMS payroll system, including an over reliance on manual transactions. For example, once a year, Member Services staff must manually enter the age of each Member so that deductions such as Life Insurance can be properly calculated. Manual entry of these changes increases the risk of error and subsequent misstatement.

These weaknesses underscore the need for the House to expeditiously replace its payroll systems.

Recommendations

The following are prior audit recommendations which were made in previous OIG audit reports. However, as a result of testing performed during the calendar year 1997 audit of the House, we have determined that the weaknesses which underlie these recommendations still exist and that the Chief Administrative Officer should continue to implement the policies and procedures necessary to resolve these weaknesses:

Recommendation	Current Status of Recommendation	Management's Response
1. Eliminate "real-time" payroll and institute a lag between the end of the pay period and the date the payroll is processed and the paychecks are distributed. (OIG Report No. 95-CAO-16, G.2)	Status: Limited Progress Discussion: No changes in policies and procedures have been made. The House began evaluating new payroll system options in January 1997. The House has finalized high-level system requirements and has developed the detailed Business Process Reengineering (BPR) analysis for the replacement of both payroll systems.	CONCUR. The Office of the CAO will continue with its feasibility and development work on the issue, taking into consideration this recommendation as part of the selection of a replacement Human Resources payroll capability. Once the replacement solution has been identified, HR will make a specific recommendation to the appropriate House decision-

		makers to institute a lag between the end of the pay period and the date payroll is processed.
2. Replace current House payroll and human resources systems for Officers' employees ensuring that requirements to control and account for annual leave are met by the systems and new procedures that are prepared for those systems. In addition, use the financial information to monitor and manage the cost to the House for annual leave. (OIG Report No. 97-HOC-14, 11.4)	Status: Some Progress Discussion: The House has finalized high-level system requirements and has developed a detailed BPR analysis for the replacement of both payroll systems.	CONCUR. The Office of the CAO will continue with its feasibility and development work on the issue, taking into consideration this recommendation as part of the selection of a replacement Human Resources payroll capability. Once the replacement has been identified, HR will work to ensure that requirements and procedures to control and account for annual leave are met by the replacement solution. In addition, HR will use the financial information to monitor and manage the cost to the House for annual leave.

The following recommendations made during previous audits have been closed because changes in House operations remedied the associated weakness or changes in the nature of House operations eliminated the significant concerns underlying the recommendation:

Recommendation	Current Status of Recommendation
3. Enforce both the <i>Members' Congressional Handbook</i> and the <i>Committees' Congressional Handbook</i> rules and require Members, committees, and Officers to submit Payment Authorization Forms on time. (OIG Report No. 95-CAO-16, G.1)	Status: Closed
4. Assign responsibility to Office of Finance for pursuing collection of salary overpayments if the employing office's efforts prove unsuccessful after one month. (OIG Report No. 95-CAO-16, G.3)	Status: Closed
5. Continue to pursue and resolve remaining outstanding salary over-payments. (OIG Report No. 96-HOC-01, E.1)	Status: Closed
6. Establish and implement a policy requiring that the debts of individuals who do not respond to the House's initial efforts to collect salary overpayments be referred to a collection agency. (OIG Report No. 96-HOC-01, E.2)	Status: Closed

Weakness 4: Financial Management Continues To Be Hampered By Inadequate Systems, Resources, And Procedures**Summary Status:** • **Reportable Condition**

- **Prior Condition**
- **Substantial Progress Towards Correction**

Incomplete Use of Federal Financial System

Since June 1996, the House has used the Federal Financial System (FFS) as its principal system to process and record accounting transactions. This system has been used primarily to process vouchers and make disbursements, and in a limited capacity, to obligate funds for the purchase of goods and services. Although this financial management system employs a comprehensive chart of accounts and established Budget Object Classes (BOCs) consistent with Federal accounting standards, the House did not use the full capability of this system or its general ledger function. Furthermore, some weaknesses noted with the prior system, Financial Management System (FMS), have been noted in the FFS modules implemented. For example:

The FFS accounts payable module was not used within the capacity of its intended purpose. After individual offices received materials ordered from a vendor, Office of Finance would establish a liability for the money owed that vendor only after the office submitted the invoice for payment. This liability was liquidated the next day when payment was made. Because of this process, the House is unable to accurately identify its trade liabilities at any given point in time.

In limited instances the House continues to “back-date” transactions within FFS. This means that if the House processed a transaction in March 1998 that related to December 1997, it instructed FFS to accept the transaction as if it was processed during December 1997. Processing transactions in this manner is not an acceptable accounting practice, complicates the reconciliation process between the House and the U.S. Treasury, and compromises the integrity of the Members' Financial Statements on a year-to-date basis.

FFS capabilities to produce a trial balance have not been implemented by the House. This is a basic accounting report used by most organizations to assess the accuracy of transactions processed during an accounting period, to aid managers with critical financial decisions, and to facilitate the preparation of reconciliations and financial statements. These actions can be completed without a trial balance. However, without an automated trial balance, these actions become very labor intensive, with an increased probability of reporting inaccurate information.

System Improvements

Although FFS is a House-wide, integrated financial system, it has not been fully implemented in offices other than Office of Finance. Therefore, other House offices must track financial data using methods that are not compatible with FFS. This lack of integration from “feeder” systems results in several redundancies to process and accumulate financial data, which increases the risk of mismatched and inaccurate financial information.

However, the House is continuing planned improvements to the existing systems. The House has initiated the procurement of a Human Resources/Payroll system

and a Fixed Asset/Inventory system. These new systems will help centralize the House's financial data by feeding the information directly into FFS through automated interfaces. Furthermore, the Office of Procurement and Purchasing is completing a pilot project with Procurement Desktop within House Information Resources (HIR) which will help to eliminate data entry redundancies in the procurement of and payment for goods and services. Completion of these projects and House-wide use of FFS should enhance the functionality of FFS and improve the House's financial reporting capabilities.

Use of Scarce Resources

Although financial statements of the U.S. House of Representatives have been audited for the past three years, the audit of the 1997 financial statements marks the first time that House employees, rather than outside contractors, prepared and submitted the financial statements for audit. However, even after four years, this process continues to be labor intensive with limited support from automated systems.

Currently, an inordinate amount of time must be consumed completing reconciliations and other detective procedures to ensure that the various systems remain in balance, and to prepare financial reports which accurately reflect the operations of the House. Continued progress in implementing more automated capabilities (thereby eliminating many of the manual procedures performed by House employees) could free up resources to implement more preventative controls which would help ensure the accuracy and completeness of data processed by FFS.

Recommendations

The following are prior audit recommendations which were made in previous OIG audit reports. However, as a result of testing performed during the calendar year 1997 audit of the House, we have determined that the weaknesses which underlie these recommendations still exist and that the Chief Administrative Officer should continue to implement the policies and procedures necessary to resolve these weaknesses:

Recommendation	Current Status of Recommendation	Management's Response
<p>1. Complete the implementation of the core FFS components, and develop work plans and procedures to accurately and completely reconcile transactions processed by FFS to the U.S. Treasury on a monthly basis. (OIG Report No. 97-HOC-14, 1.6)</p>	<p>Status: Substantial Progress</p> <p>Discussion: Some core components of the system have not been implemented, and the corresponding Office of Finance records do not yet constitute a full accrual-based system and do not comply with JFMIP requirements. Specifically, the system implementation efforts need to address accounts payable and executive reporting. The system implementation efforts need to include the implementation of the reporting and information</p>	<p>CONCUR.</p> <p>The Office of Finance Office has reviewed the feasibility and frequency of obligating and/or accruing payroll and lease accounting transactions for all Member offices. Based on this review, the Office of Finance will start to obligate payroll and leases for all Members no later than October 31, 1998. Also, 1999 funds have been approved for an analysis to define House Offices financial management requirements that</p>

	<p>requirements of all House offices. Office of Finance needs to finish carrying out the plan which includes a task which addresses “future initiatives of the Federal Financial System.” This includes Member Access, Enhanced Financial Reporting, and Requirements Analysis for Internal and External Reports.</p>	<p>will be the basis for a replacement of the Federal Financial System (FFS). Funding for a replacement system has been requested in the FY 2000 strategic plan for this project. We believe we have taken appropriate action to close this recommendation.</p>
<p>2. Eliminate the practice of holding accounting periods open for indefinite periods of time. Work plans and procedures should be developed to close out each month in a timely manner. (OIG Report No. 97-HOC-14, 1.7)</p>	<p>Status: Substantial Progress</p> <p>Discussion: The temporary closing of an accounting period is accomplished through a manual process rather than through FFS off-line jobs. This practice allows accounting periods to be reopened for purposes of posting adjustments. In addition to increasing the risk of data entry errors, the manual closing of accounting periods prohibits the production of FFS monthly trial balances. The ability to agree the Monthly Financial Statements (MFS) to the year-to-date totals is also lost because when transactions are posted to a prior accounting period, the historical balance file supporting the MFS report is rebuilt. The House should develop and fully implement policies and procedures that close accounting periods within FFS and prohibit reopening them. This procedure would also aid the reconciliation process by limiting the possibility of misreporting transaction activity to</p>	<p>CONCUR. The Office of Finance has developed written and automated procedures to ensure we close out each month in a timely manner. We believe that we have taken appropriate actions to close this recommendation.</p>
<p>3. Review existing system requirements to ensure that all required fields within FFS are completed and edited by the system or FFS users whenever possible, before the transactions are accepted by FFS. This would include the use of service dates and legislative year information. (OIG Report No. 97-HOC-14, 1.8)</p>	<p>the U.S. Treasury. Status: Some Progress</p> <p>Discussion: In July 1997, Office of Finance issued a delivery order to its service provider, the Department of Interior's Washington Administrative Service Center (WASC), to address issues related to acceptable and required codes for critical data elements. In addition, WASC was tasked to address controls on input that can be used to develop overall system and reporting controls. In their analysis, the WASC recommended various alternative</p>	<p>CONCUR. The Office of Finance has given the vendor approval to make service dates a required entry field. This modification should be accomplished by November, 1998, at which time we will request the Office of Inspector General's validation to move into production.</p>
<p>actions which can be taken to improve</p>		

	the current financial processes in the area of data entry accuracy. The House is in the process of implementing the commercial off-the-shelf data entry front-end product which may increase ease of use for entering and querying the FFS data.	
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The following recommendations made during previous audits have been closed because changes in the House's operations remedied the associated weakness or changes in the nature of House operations eliminated the significant concerns underlying the recommendation:

Recommendation	Current Status of Recommendation
4. Provide staff with training on the new financial management system and standard accounting methods. (OIG Report No. 95-CAO-16, A.4)	Status: Closed
5. Until FFS is fully implemented and supported by subsidiary systems, establish work plans and procedures to, on an interim basis, calculate and maintain balances such as interoffice receivables and payables, inventory, property, capital leases, accrued annual leave, unfunded workers' compensation, and depreciation expense in subsidiary ledgers. In addition, identify interim software solutions needed to prepare the annual consolidated financial statements. (OIG Report No. 97-HOC-14, 1.9)	Status: Closed
6. Perform a resource needs assessment in Office of Finance, obtain staffing level approvals, and fill needed positions with qualified employees. (OIG Report No. 97-HOC-14, 1.10)	Status: Closed
7. Ensure that the integrated financial management system, which the Chief Administrative Officer has committed to implement, complies with JFMIP requirements and is coordinated with the efforts and needs of other House offices. (OIG Report No. 95-CAO-16, A.1)	Status: Closed
8. Implement an accrual basis of accounting as well as principles and standards generally accepted in the Federal government and the private sector. (OIG Report No. 95-CAO-16, A.2)	Status: Closed
9. Redesign internal and external management reports based on user requirements. (OIG Report No. 95-CAO-16, A.5)	Status: Closed

Weakness 5: Deficiencies Exist In Budgeting, Monitoring, And Accounting For Member Allowances**Summary Status:** • **Reportable Condition**

- **Prior Condition**
- **Substantial Progress**

As stated in the *Members' Congressional Handbook*, "All Members have one allowance available to support the conduct of official and representational duties to the district from which elected, to be used in accordance with the Members' Congressional Handbook." Within the Members' Representational Allowance (MRA) are two subset allowances, called programs: the Mail program, which is the total amount allocated by the Committee on House Oversight (CHO) for official franked mail expenses; and the Other program, which is the amount allocated for all expenses other than mail. Each Member's expenditures for franked mail may not exceed the total amount allocated by the CHO for official mail expenses, plus an additional \$25,000, transferable within the MRA at the Member's discretion.

To assist Members in complying with these requirements, it is the responsibility of Office of Finance to monitor and account for the MRAs. In addition, House service entities, such as Office Systems Management (OSM), are responsible for accumulating usage for the month and for charging the individual MRA accounts in the Federal Financial System (FFS). Effective controls and sufficient efforts from both Office of Finance and the House service entities can ensure the completeness and accuracy of charges to the MRAs, and help prevent the occurrence of overspending. It should also be noted that effective January 3, 1998 a new policy was implemented to obligate funds for all mass mailings, however policies still do not exist to obligate other major spending commitments such as rent and payroll which occur throughout the year.

During our testing we found that the controls used, by both Office of Finance and House entities, to ensure completeness and accuracy of charges to the MRAs were inadequate and both Finance and the House service providers did not have sufficient procedures to prevent Members from overspending their MRAs.

Specifically:

- Neither Office of Finance nor the United States Postal Service (USPS) has adequate means of determining whether all franked mail sent from district offices was reported to Office of Finance and whether the cost of that mail was charged to the MRAs. A Member's district office accounts for franked mail on a manually prepared "District Office Certification of Franked Mail" form which is completed monthly. These district office mail reports are the basis for charging Members' MRAs for Official Mail expenses for non-permit franked mail sent from district offices.

During 1997, 373 Members did not submit a total of 847 district office mail reports to Office of Finance in time for inclusion in the December 1997 USPS invoice. A revised 1997 invoice for \$474,216 was issued by the USPS in June 1998 to include charges reflected on reports that were submitted after year-end. As of July 21, 1998, 27 Members still had not submitted a total of 115 district office mail reports for 1997 franked mail activity. Thus, to date, these

Members' legislative year 1997 MRAs have not been appropriately charged for all franked mailings in 1997. Prior year-end revision statements have contained additional charges for as much as \$5 million. Furthermore, delays by vendors in processing Members' mailings and forwarding charges to the USPS result in the USPS monthly invoices not containing complete information, thereby necessitating the year-end USPS revision statement discussed above. These delays can result in additional charges in the tens of thousands of dollars per Member for postage and processing costs. Since obligations were not established for mail in 1997, the Members were not receiving an accurate portrayal of their allowance balances in their monthly financial statements.

- Office of Finance's controls over USPS franked mail usage data input into FFS were weak, resulting in the following errors: three Members were charged the correct amount for franked mail usage, but to the incorrect program of the MRA; three Members' mail charges were entered into FFS using an incorrect organizational code, resulting in a misallocation of \$30,215 for six different Members; and mail expenses of approximately \$584 for one month were charged to the incorrect legislative year in FFS for one Member, understating that Member's legislative year 1997 MRA expenditures.

- The *Members' Congressional Handbook* states that the MRA is not transferable between years. Furthermore, the CHO has issued guidance which specifies how various charges should be allocated between financial reporting periods. During our testing, we noted that installation charges related to new equipment requisitioned by a Member during 1997, and ordered by OSM during 1997, were charged to the Member's 1998 MRA. The CHO guidance on this matter specifies that these installation charges should have been recorded against the Member's 1997 MRA. In fact, OSM originally recorded the installation charges against the Member's 1997 MRA, but subsequently transferred the charges to the Member's 1998 MRA after receiving a request from the Member to complete the transfer between years.

Although OSM and Office of Supply Services (OSS) established procedures to obligate for other House offices during 1996, the House did not consistently obligate or otherwise reserve funds for all significant expenditures such as rent and payroll. The lack of policies governing timely recording of obligations and expenditures increased the risk of overspending funds authorized by appropriations.

Office of Finance's records indicated that, as of July, 21 1998, three Members overspent their overall MRAs in legislative year 1997 and could not resolve their deficiencies by adjusting terms of equipment purchases, canceling subscriptions, or returning goods to vendors. The amount of overspending ranged from approximately \$4,780 to \$9,633. We understand that Office of Finance will write letters to each of these three Members requesting reimbursement by personal check for the amount of their overspending, if future adjustments cannot resolve their deficiency.

In addition, as of July 21, 1998, two former and one current Member have not fully repaid the deficiencies in their legislative year 1996 MRA balances. Their unpaid balances range in amount from approximately \$544 to \$29,700.

Recommendations

We recommend that the Chief Administrative Officer:

Recommendation	Current Status of Recommendation	Management's Response
1. Ensure that legislative year 1997 MRAs are properly charged for the 27 Members that have not submitted district office "District Office Certification of Franked Mail" forms for 1997 as of July 21, 1998, either by obtaining missing district office forms or through CHO-authorized estimation techniques.	Status: New Recommendation	CONCUR. Personal contact has been made to gain additional compliance with the 27 offices in question that reduced this to 26 offices. Based on our recent efforts and subsequent results, we have submitted a request to the Committee on House Oversight to authorize the U.S. Postal Service to estimate charges for those Members' balances still outstanding. We believe we have taken appropriate action to close this recommendation.
2. Perform a cost-benefit analysis to assess the feasibility of requiring Members' district offices to purchase postage meters or USPS Federal Postal Payment Cards as an alternative means of accumulating costs for district office franked mail.	Status: New Recommendation	CONCUR. A cost-benefit analysis assessing the feasibility of mandated postage meters in district offices has been performed and forwarded to the Committee on House Oversight. U.S. Postal Service officials familiar with the House's district office operations do not believe that Payment Cards, designed for large-scale users, will work well in what those officials term the "minimum transaction" environment of district offices. We believe we have taken appropriate action to close this recommendation.
3. Office of Finance should expand the procedures currently used to reconcile aggregate USPS charges and FFS information to include reconciliations of USPS and FFS data at the Member level.	Status: New Recommendation	CONCUR. Postal Operations has put the proper procedures in place that ensure that all obligations, hence payments, have the correct program code for the type of activity, organizational code for the Member, and the correct legislative year for when the activity occurred. Additionally, Postal Operations has put the proper procedures in place that ensure that reconciliation of USPS charges occur at the Member level as well as the

		aggregate level. We believe this action closes this recommendation.
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The following are prior audit recommendations which were made in previous OIG audit reports. However, as a result of testing performed during the 1997 audit of the House, we have determined that the weaknesses which underlie these recommendations still exist and that the Chief Administrative Officer should continue to implement the policies and procedures necessary to resolve these weaknesses:

Recommendation	Current Status of Recommendation	Management's Response
4. Provide information to Members, committees, and House Officers on how much money they have spent versus what they were budgeted. (OIG Report No. 95-CAO-16, C.2)	Status: Substantial Progress Discussion: Although purchases such as office supplies, one year purchases of equipment, and mass mailings are reported as obligations, other spending commitments, such as rent and payroll, are not taken into account. Obligation accounting should be implemented for a material portion of the House's annual appropriations/expenditures. This capability could be provided through FFS and Procurement Desktop. In addition, information for these obligated items should be provided to Members, committees, and other House offices.	CONCUR. As stated in Weakness 4, Recommendation 1, the Office of Finance Office has reviewed the feasibility and frequency of obligating and/or accruing payroll and lease accounting transactions for all Member offices. Based on this review, the Office of Finance will start to obligate payroll and leases for all Members no later than October 31, 1998.

The following recommendations made during previous audits have been closed because changes in House operations remedied the associated weakness or changes in the nature of House operations eliminated the significant concerns underlying the recommendation:

Recommendation	Current Status of Recommendation
5. Office of Finance should work with Members' offices to establish obligations for estimated postage and mass mailings, and for other costs such as rent and payroll that will recur throughout the year. (OIG Report No. 96-HOC-05, 6.7)	Status: Closed
6. Institute budget controls to obligate, or reserve, funds before ordering goods and services and verify that funds are available before they are obligated. (OIG Report No. 95-CAO-16, C.1)	Status: Closed
7. Office of Finance should establish consistent policies and procedures to proactively monitor and contact Members' district offices to encourage adherence to the deadline for submitting "Certifications of Franked Mail" as established in the <i>Members' Congressional Handbook</i> . (OIG Report No.	Status: Closed

97-HOC-14, 4.9)	
8. Provide Members with more detailed financial information about the status of their allowances based on both commitments they have made and money they have spent. (OIG Report No. 95-CAO-16, D.5)	Status: Closed
9. Office of Finance should work with the USPS to ensure that USPS reports are timely, accurate, and provide meaningful presentation and summarization of official mail usage. Once cumulative USPS information is available, Office of Finance should reconcile net transfers according to USPS to FFS on a monthly basis. Additionally, Office of Finance should ensure that accurate transfer and available spending data are included on the Members' monthly statements. (OIG Report No. 96-HOC-05, 6.9)	Status: Closed
10. Office of Finance should work with USPS to ensure that USPS monthly invoices contain complete and accurate information by reconciling the USPS reports to the data entered into FFS. In addition, Office of Finance and USPS should minimize the amount of additional charges contained on the year-end revision statements, thereby reducing the amount of time needed by USPS to complete and submit reports to Office of Finance. (OIG Report 97-HOC-14, 4.12)	Status: Closed
11. Office of Finance should ensure that the 102 Members' legislative year 1996 MRAs are charged for their district office mail usage costs by obtaining missing district office forms or through committee-authorized estimation techniques. (OIG Report No. 97-HOC-14, 4.1)	Status: Closed
12. Office of Finance should continue with the planned modification of FFS to allow for the recordation of transfers between the MRA programs, Mail and Other. (OIG Report No. 97-HOC-14, 4.11)	Status: Closed
13. Office of Finance should continue to perform a detailed analysis of 1997 MRA spending and obligations before the legislative year end to: (1) ensure that Members have complete information about their 1997 MRA status, and (2) identify and contact Members that are at high risk of overspending their allowances. This information will help prevent Members from incurring significant costs near legislative year end, such as for equipment or mass mailings, that might cause them to exceed their MRA limitation. (OIG Report No. 97-HOC-14, 4.13)	Status: Closed
14. House service-providing entities should design and implement controls, such as analytical procedures, to ensure the completeness and accuracy of charges to Member, committee, and Officer accounts. (OIG Report No. 97-HOC-14, 4.14)	Status: Closed
15. Establish controls to ensure that Office of Finance adheres to any provisions of law or its own policy requiring the remittance of funds to the U.S. Treasury. These policies and procedures should also address the review of inactive cash accounts that may need to be transferred to the U.S. Treasury general fund. (OIG Report No. 96-HOC-05, 5.3)	Status: Closed
16. Establish controls to ensure that the House inputs warrant amounts timely and in the proper amount to FFS, and performs a full reconciliation between FFS and reports from the U.S. Treasury. (OIG Report No. 97-HOC-14, 8.4)	Status: Closed

Weakness 6: The House Did Not Properly Track The Goods And Services It Ordered, Made Erroneous Duplicate Payments, And Paid Vendors Late**Summary Status:** • **Reportable Condition**

- **Prior Condition**
- **Some Progress Towards Correction**

The House has limited ability to determine amounts obligated or payable at a given time because the Federal Financial System (FFS) has been implemented primarily as a cash-based system. The House has taken steps to obligate Office of Systems Management (OSM) and Office of Supply Services (OSS) purchases through the purchasing subsystem used within FFS. However, the House did not track what it ordered and owed vendors until Office of Finance was billed. In some cases, ordering was controlled through records maintained by the ordering entity. As a result, Office of Finance had no central record of items ordered, or of goods and services received, that could be used to accumulate and summarize outstanding bills. With respect to goods and services ordered directly by Members and committees, the House had no means of tracking obligations as they were incurred, because no information about orders was available until vouchers were sent to Office of Finance for payment.

In addition, Office of Finance procedures appear inadequate to ensure that duplicate payments are not being disbursed for travel reimbursements and vendor payments. We reviewed all non-obligating payment transactions processed through FFS during 1997 and noted 2,252 sets of potential duplicate payments with a total dollar value of \$582,812. We randomly selected thirty-four of these sets for further testing, and noted that in eighteen instances duplicate payments were in fact made by the House to individuals or vendors. Our testing would not allow us to conclusively state that the House had not received refunds for the duplicate payments, or that the House did not receive all of the goods or services for which it paid. However, this testing does indicate that procedures could be improved to help avoid duplicate payments, and thus reduce the risk that House appropriations are being disbursed for non-qualified expenses, as well as the risk that expenses are overstated and possibly reducing the Members' MRA for non-qualified expenses. FFS was designated to minimize duplicate payments through the use of obligation and voucher tracking functions. Office of Finance does not fully utilize these functions.

In prior years, we found that the House often pays for goods or services received several weeks, and in some cases months, after the goods and services were actually delivered. Our testing in this area indicated that once an invoice was received by Office of Finance for payment, it was paid in a timely manner. Therefore, any payments delayed by more than a few weeks could be attributed to the fact that the Office of Finance was not notified in a timely manner that the goods or services had been received by the House. This year's audit indicated that some bills are still paid after the due date. For example, of the 45 non-travel related vouchers sampled for testing, 13 transactions resulted in payments past the due date and another 9 resulted in payments at least 30 days past the invoice date. Additional analysis of these late payments indicated that most of these late

payments were caused by untimely submission of vouchers by initiating offices to Office of Finance. This practice may result in the discontinuation of the provision of goods and services to Members and House offices. This practice may also lead to the forfeiture of trade discounts offered by vendors.

Furthermore, we noted that several of the date fields within FFS are used inconsistently by the various service-providing entities of the House. Inconsistent use of the date fields within FFS could compromise the integrity of the data stored within the system, and could significantly hamper the efforts of the House to compile accurate and reliable financial reports.

Recommendations

We recommend that the Chief Administrative Officer:

Recommendation	Current Status of Recommendation	Management's Response
1. Establish and implement policies and procedures to: <ul style="list-style-type: none"> • take advantage of FFS functions to ensure duplicate payments are not being erroneously disbursed. • include analytical procedures to sort, match, and test for potential duplicate payment transactions in FFS. • ensure that FFS date fields are used consistently. 	Status: New Recommendation	CONCUR. The Office of Finance has identified a software application to detect potential duplicates and is moving expeditiously to implement the method by the end of 1998. Additional, appropriate procedures will be developed to ensure we are also consistently using the FFS date fields following the modification to FFS to make service dates a required entry field as mentioned in our response to Weakness 4, Recommendation

3.

The following are prior audit recommendations which were made in previous OIG audit reports. However, as a result of testing performed during the calendar year 1997 audit of the House, we have determined that the weaknesses which underlie these recommendations still exist and that the Chief Administrative Officer should continue to implement the policies and procedures necessary to resolve these weaknesses:

Recommendation	Current Status of Recommendation	Management's Response
2. Initiate a system of accounting and control that captures data and tracks transactions by vendor and by ordering office when goods and services are ordered, received, and paid. (OIG Report No. 95-HOC-22, 2.1.)	Status: Some progress Discussion: Currently, FFS is used to capture expense data at the point of obligation. However, not all expenses are obligated. The Accounts Payable Subsystem of FFS and the Purchasing Subsystem, installed in June 1996, are now being used by OSM and OSS. These subsystems record payment transactions and obligation information	CONCUR. Procurement Desktop (PD) will be used to initiate all CAO-processed purchases using standard forms for requisitions (purchase requests) and purchase orders (awards). PD will also be used for receipt of goods. Receipt of goods data will be pulled from the PD purchase order. Data from the PD receipt

	<p>for goods ordered.</p> <p>In addition, Procurement Desktop (PD) and the planned Fixed Assets/Inventory Management systems, which are partially implemented by the House, may capture data on receipt of goods. PD has the capability to produce receiving documents through a receipt of goods module, but the House has no formal plans to implement this module.</p> <p>FFS is capable of tracking, in real-time, all goods received. PD can capture contract, purchase order, and receipt of goods data. It also can assist in standardizing documentation prepared by procuring organizations and can standardize the authorization/approval process for these documents. Once the House decides how transactions will be tracked, the House should implement the capabilities. If transactions are tracked in PD and/or in the planned Fixed Assets/Inventory Management system, the House should ensure that the information is passed to</p>	<p>of goods document will then be transferred to the Fixed Assets/Inventory Management System currently being purchased</p> <p>The Fixed Assets/Inventory Management System general ledgers will calculate depreciation of assets and summary data from those calculations will be supplied to FFS. Payments can be made directly in FFS or through the payment module of the Fixed Assets/Inventory Management System. Vendor data will be shared by all three systems. Our target date for closure is dependent on the Fixed Assets/Inventory Management System being deployed by October 31, 1999.</p>
<p>3. In conjunction with acquiring a new financial management system, ensure it has the capability to:</p> <ul style="list-style-type: none"> • compare orders against the available budget by office • prompt offices when orders have not been received or when bills have not been paid after a specified period of time. <p>(OIG Report No. 95-HOC-22, 2.2)</p>	<p>FFS. Status: Some progress</p> <p>Discussion: The Purchasing Subsystem is now being used by OSM and OSS to track their spending against respective obligations. However, the House did not implement procedures or system enhancements to prompt offices when orders have not been received or when bills have not been paid after a specified period of time.</p> <p>Measures to avoid late payments require the implementation of full obligation based accounting and the creation of receiver documents in FFS or PD. The implementation of full obligation accounting would ensure that all commitments are recorded and tracked. Receiver documents will allow the House to identify voucher information that has not been submitted to Finance for payment</p> <p><u>which directly addresses the identified</u></p>	<p>CONCUR.</p> <p>Verification of fund availability is currently being done. With PD, there will be an automated check of FFS for fund availability at the point of requisition and again at the point of purchase order (obligation) approval. PD is scheduled for implementation in HIR in August 1998, with full implementation in CAO offices to be completed in 1999.</p> <p>PD will also capture receipt of goods data and pass this information to the new Asset Management system. Finally, notification of delinquent payments will originate in either the new Asset Management System or FFS.</p>
<p>problem of Members' late submission</p>		

	of vouchers. Both the FFS purchasing subsystem and PD could be, but are not used to create receiving documents.	
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Weakness 7: Reconciliations Of Total Obligations Generated By Each Entity To Those Recorded In FFS Are Not Performed

Summary Status: • **Reportable Condition**

- **Prior Condition**
- **Substantial Progress Towards Correction**

With the implementation of FFS, certain House offices which provide services to other entities within the House were given the ability to obligate funds when goods or services are ordered by recording obligations. However, there are currently no procedures in place to reconcile total obligations generated by the service providers to those entered in FFS. By not performing reconciliations between total obligations recorded by the service providers with those recorded and approved in FFS, the House is exposed to the risk that goods and services which have been ordered, and possibly received, are not recorded in FFS. In addition to the lack of reconciliations of total obligations generated, neither Office of Finance nor most service providers monitored outstanding obligations on a consistent basis during 1997. Outstanding obligations should represent goods or services that have been ordered but have not been received. For example, as outlined in Weakness 1, Office Systems Management (OSM) often does not receive timely information from Members, committees or Officers about the delivery and installation of equipment. Without this information, OSM will not pay the invoice, and the original obligation remains outstanding. Additionally, if a payment is not referenced to the original obligation established for that item, the obligation will not be liquidated. As a result of an inconsistent matching of payments and obligations, Members' monthly financial statements or the committees' or Officers' budgets may reflect an outstanding obligation as well as an expenditure against the MRA or budget, thus incorrectly limiting the spending capability of the Member, committee or Officer.

A possible mitigating control is that the Office of Procurement and Purchasing reviews all purchase orders to ensure that the obligation information in FFS is consistent with the hardcopy purchase orders from service providers. However, without reconciliations of total obligations, a purchase order may not receive the proper approval in FFS, known as the "W" pass, and will not be processed against the Member's account or the committee's or Officer's budget. Consequently, such transactions would not be reflected in a Member's, committee, or Officer's available allowance.

In addition, by not performing an analysis of the unliquidated portion of obligations recorded in FFS, the House is exposed to the risk that: (1) vendors are not providing timely services; or (2) the House is not paying vendors in a timely manner for goods or services which have been provided or received. If formal reconciliations were performed by each service provider, the cause of these outstanding obligations, which have remained outstanding for a significant period of time, could be identified and investigated further.

Recommendations

The following are prior audit recommendations which were made in previous OIG audit reports. However, as a result of testing performed during the calendar year 1997 audit of the House, we have determined that the weaknesses which underlie these recommendations still exist and that the Chief Administrative Officer should continue to implement the policies and procedures necessary to resolve these weaknesses:

Recommendation	Current Status of Recommendation	Management's Response
<p>1. Develop and implement standard procedures for all service providers requiring formal reconciliations between obligations established in the service provider systems with those recorded by FFS. These monthly reconciliations should be reviewed and approved and forwarded to Office of Finance. (OIG Report 97-HOC-14, 12.1)</p>	<p>Status: Substantial Progress</p> <p>Discussion: In March 1998, Office of Finance developed draft procedures requiring service providers to perform monthly reconciliations between their systems and FFS. The service providers are required to maintain the reconciliation documentation which will be reviewed and approved by Office of Finance. Office of Finance should ensure that these reconciliations are completed on a regular basis, and that actions are taken to resolve unliquidated/outstanding obligations.</p>	<p>CONCUR.</p> <p>In May 1998, service providers began receiving a monthly report of outstanding unliquidated obligations. They are currently reviewing this report to validate all unliquidated obligations and specific action is required for those over 180 days. Organizations are deobligating amounts no longer valid. The Office of Finance is assisting service providers with the reconciliation of valid obligations recorded in FFS and their subsystems. Initial reconciliation reports are due to the Office of Finance for review and analysis by</p>

September 1998.

The following recommendations made during previous audits have been closed because of changes in the House's operations remedied the associated weakness or changes in the nature of House operations eliminated the significant concerns underlying the recommendations.

Recommendation	Current Status of Recommendation
<p>2. Develop and implement a standard aging report identifying outstanding FFS obligations by entity, which should be distributed to individual service providers. Service providers should investigate and assess the validity of those obligations which have been outstanding greater than 60 days. (OIG Report 97-HOC-14, 12.2)</p>	<p>Status: Closed</p>

Weakness 8: Access Controls Over the House's New Federal Financial System (FFS) Need Improvement To Provide Effective Security**Summary Status:** • **Reportable Condition**

- **Prior Condition**
- **Limited Progress Towards Correction**

The House has initiated a number of actions to improve access controls over the Federal Financial System (FFS). However, implementation of these controls is still underway. Until corrective actions are fully implemented, the House is exposed to the risk of unauthorized and inappropriate access to FFS. Specifically, the House needs to (1) establish management policies and procedures to ensure managers/supervisors limit FFS access to appropriate staff consistent with their job responsibilities; (2) finalize FFS security policies and procedures for FFS security administrators to ensure appropriate FFS administration and oversight; and (3) establish an FFS application security administration function that is separate from the application user function and FFS operations and production support.

Prior audits of the House's information systems showed that significant improvements are needed to enhance controls surrounding the House's financial system. On June 4, 1996, the House implemented the core modules of FFS, a commercial software package that has the capability to correct many of the control weaknesses associated with the House's old Financial Management System (FMS). The FFS project focused mostly on efforts to get the system ready for the implementation process with relatively few steps taken to make the necessary work flow, organizational, and procedural changes to support the new system. Part of the implementation process included the FFS security administration function. As a result of the problems and complexities associated with the implementation of FFS, the structure and documentation necessary to administer FFS security were not in place after the system's implementation.

In 1996, in an effort to cure deficiencies related to FFS application security administration, Office of Finance identified distinct areas of control to facilitate the establishment and assignment of responsibility for the administration of FFS security. Specific control objectives identified and established by Office of Finance were: (1) internal controls; (2) segregation of duties; (3) security personnel training; and (4) documentation reviews. The Office of Finance established a security administration function separate from application users, production support and system analyst functions.

In 1997, as part of a reorganization of the Office of Finance, FFS application security administration responsibilities were shifted under the Financial Systems Branch (FSB). This branch combined several areas including production support, system analysts/programmers, and application security administration. The FFS application security administrator now has other responsibilities in the operations

and production support of FFS that are not compatible with security administration.

Application security administration should be segregated from application end-users, operations, and application development. Further, the application security administrator should report directly to the owner of the system and not the person in-charge of FFS development, implementation, and operations at the House.

The new FFS security administrator and the FSB have composed a schedule addressing the transition from the previous security administration staff and the establishment of new/revised policies and procedures to address the prior audit recommendations. The transition to the new security administration staff is complete and the FSB is in the process of revising and expanding the old draft procedures.

FFS access controls and security administration is a joint responsibility between managers/supervisors and security administrators. Without clearly defined management and security administrator policies, procedures, and assigned responsibilities for access controls and security administration, the House is exposed to the risk of unauthorized and inappropriate access to FFS.

Recommendations

We recommend that the Chief Administrative Officer:

Recommendation	Current Status of Recommendation	Management's Response
1. Establish an FFS application security administration function that is separated from application user functions and from application operations and production support.	Status: New Recommendation	CONCUR. The FFS application security administration function will be assigned as a collateral duty to a position separate from the Financial Systems Department. This assignment will be accomplished by October 1, 1998 and will be coordinated with the Office of Inspector General.

The following are prior audit recommendations which were made in previous OIG audit reports. However, as a result of testing performed during the calendar year 1997 audit of the House, we have determined that the weaknesses which underlie these recommendations still exist and that the Chief Administrative Officer should continue to implement the policies and procedures necessary to resolve these weaknesses:

Recommendation	Current Status of Recommendation	Management's Response
2. Develop and implement management policies and procedures to ensure that managers/supervisors:	Status: Some Progress Discussion: In 1998, security within the FFS application became the	CONCUR. User access is being granted only to personnel with a business reason to have access. A semi-annual re-

<ul style="list-style-type: none"> • assign FFS access capabilities only to those users whose defined access does not conflict with the user's primary business function. • restrict assignment of levels of access, which have potentially incompatible functions (e.g., no individual should have both PASS1 and PASS2 capabilities). • limit update capabilities to the VEND Table to a few users with a business need. • require user request forms to be complete, consistent with assigned access, and properly authorized for all FFS users. <p>(OIG Report No. 97-HOC-14, 13.1)</p>	<p>responsibility of the FSB. The FSB is in process of redefining the method to assign access. The assignment of incompatible functions (PASS1 and PASS2) is also being examined.</p> <p>In addition, in October 1997, the Washington Administrative Service Center (WASC) prepared an analysis document to address the cleanup and ongoing management of vendor records including the addition of new vendors, archiving of unused vendor records, and ongoing process for control and elimination of duplicate vendor records. The analysis provided a recommendation for streamlining the data entry process to ensure that access to the VEND Table is centralized. In January 1998, Office of Finance prepared VEND Table management procedures to be used when entering information into the FFS VEND Table. However, the access to the FFS VEND Table has not been reduced.</p>	<p>certification process is now conducted to assure that staff with FFS access continue to be employed in the same capacity and by the current organization. A procedure is also in place to require that all requests for access be completed on a request form and properly authorized by the individual's supervisor and the FFS Security Administrator. These procedures were completed on July 31, 1998. Additionally, a project is also under way to restrict VEND table access. We believe we have taken appropriate action to close this recommendation.</p>
<p>3. Approve the <i>FFS Security Administrator Policies and Procedures Manual</i> after the following additional procedures to enhance controls are added:</p> <ul style="list-style-type: none"> • provide oversight over the proper implementation of the management policies and procedures identified in Recommendation 1. • perform a review at least every 90 days to determine the existence of obsolete or inactive login IDs. Based on this review, follow up with user management to determine whether access is still required. User IDs no longer requiring access should be eliminated. 	<p>Status: Some Progress</p> <p>Discussion: In 1998, security within the FFS application became the responsibility of the FSB. The FSB has developed a security transition plan to facilitate the migration of the security responsibilities. One of the actions on the security transition plan is the revision of the <i>FFS Security Administration Policies and Procedures Manual</i>. FSB is currently revising this manual to incorporate the additional procedures as noted in the recommendation.</p>	<p>CONCUR.</p> <p>The FFS Security Administrator oversees the implementation of policies and procedures and is involved in all new user ID approvals. The FFS Security Administrator has also identified the specific roles and responsibilities the WASC provides in maintaining FFS Security. These procedures are a part of the revised FFS Security Manual that was completed on July 31, 1998. Finally, a review is performed on an ongoing basis to determine the inactivity of users on the FFS. We believe we have taken appropriate action to close this recommendation.</p>

<ul style="list-style-type: none"> • identify specific roles and responsibilities WASC provides in maintaining FFS security. <p>(OIG Report No. 97-HOC-14, 13.02)</p>		
<p>4. Require security administrators to obtain appropriate security clearances.</p> <p>(OIG Report No. 97-HOC-14, 13.03)</p>	<p>Status: Limited Progress</p> <p>Discussion: FSB has identified the need for obtaining clearances in the security transition plan. Office of Finance plans to initiate the necessary clearances in the near future.</p>	<p>CONCUR. All employees of the CAO routinely have a National Agency Check (NAC) performed when they are hired. Based on the fact that there is no requirement to have a security clearance for persons who do not routinely handle classified information in executive or legislative agencies, the NAC shall be considered appropriate for personnel that handle House financial information including the security administrator. We believe we have taken appropriate actions to close this recommendation.</p>
<p>5. Correct the functionality of the FFS audit log and use it to perform security monitoring.</p> <p>(OIG report No. 97-HOC-14, 13.04)</p>	<p>Status: Limited Progress</p> <p>Discussion: FSB has requested the correction of the FFS audit log.</p>	<p>CONCUR: A number of monitoring reports are available and are used by the WASC and the FFS Security Administrator to review and monitor FFS operations and access. These reports and the way in which they contribute to the monitoring of FFS system access are part of the revised FFS Security Manual that was completed on July 31, 1998. We believe we have taken appropriate actions to close this recommendation.</p>

Management Comments

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Management Report on Internal Controls

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The House of Representatives Management Report on Internal Controls

The House of Representatives (House) has a complex and diversified financial management system which includes a central system and six subsidiary systems. Although the House, a legislative body, is not required to comply with the Federal Financial Managers' Integrity Act, the Joint Financial Management Improvement Program, the Government Management and Reform Act or the Chief Financial Officers Act, it has chosen to follow these Acts in a manner consistent with a legislative agency in order to fulfill its internal control objectives.

The internal control objectives are:

Assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

Transactions are executed in accordance with management authority and with laws and regulations that have a direct and material effect on the consolidating financial statements.

Transactions are properly recorded and summarized to permit the preparation of reliable financial statements and maintain accountability for assets.

Management believes that the House has made significant improvements in the internal control structure over the past year. It must be recognized that the cost of internal control should not exceed the benefits expected to be derived therefrom, and errors and irregularities may occur and not be detected because of inherent limitations in any system of internal control. However, there are still areas for which resolution of control issues needs to be completed. In evaluating internal controls against the control objectives in the Federal government as described above, management has identified the following deficiencies:

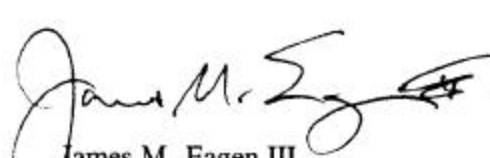
The House lacked sufficient information with which to manage and maintain accountability over its property and equipment. However, several initiatives are underway to correct this deficiency. Office Systems Management instituted a policy in 1997 of conducting a physical inventory of all equipment in Washington, D.C. and district offices on at least a bi-annual basis. The first cycle will be completed by December 31, 1998. Also, House Information Resources will complete a physical inventory of computer equipment by December 31, 1998. In addition, the Chief Administrative Officer has completed a needs assessment for a fixed asset management control system which will be compatible with the House's financial system. The House is

currently evaluating contractor proposals and the system is scheduled to be operational in 1999.

Poor controls over computers and data exposed the House to the risk of unauthorized transactions, incorrect data, misuse of assets, and loss of data and programs. House Information Resources (HIR) and, specifically, HIR's Security Office is continuing to aggressively address these findings and develop initiatives such as the mainframe migration project, the year 2000 plan, and the HIR reorganization plan to improve the House's information systems processing environment. HIR's Security Office has proposed, and is in process of refining, policies and procedures to address security issues. Portions of the policies and procedures have been approved by the Committee on House Oversight.

Payroll systems are obsolete and need to be replaced, and the House lacks a centralized system for maintaining time and leave data. The Office of Human Resources and HIR are continuing feasibility and development work leading to a replacement human resources and payroll capability.

The Office of Inspector General (OIG) was unable to render an audit opinion on the House's annual 1994 financial statements because of significant accounting system deficiencies. The House installed a new financial management system in fiscal year 1996. This significant improvement enabled the OIG to render a qualified opinion on the 1995 and 1996 financial statements. This year, for the first time, financial statements were prepared internally by Office of Finance employees using information derived from the new financial system. Preparing these statements enabled the House to identify additional ways to improve the overall financial reporting process. As a result of these continuing improvements, independent external auditors were able to express a qualified opinion on the House's Consolidated Statement of Financial Position as of both December 31, 1997 and 1996, as restated. Except for the items noted above, we believe that as of December 31, 1997, our internal controls were effective.



James M. Eagen III
Chief Administrative Officer



John Straub
Acting Associate Administrator, Finance

**CAO Response to the 1997
Financial Statement Audit
Report**

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James M. Eagen III
Chief Administrative Officer

Office of the
Chief Administrative Officer
U.S. House of Representatives
Washington, DC 20515-6860

MEMORANDUM

To: John Lainhart
Inspector General

From: Jay Eagen
Chief Administrative Officer

Subject: CAO Response to the 1997 Financial Statement Audit Report

Date: August 18, 1998

Thank you for the opportunity to comment on the 1997 Financial Statements Audit Report. We have carefully reviewed the report's six new recommendations and are in general support of them. Additionally, I have also attached a brief response for each of the audit recommendations made in previous audit reports that pertain to the Financial Statements of the House.

Our comments for each of the six new recommendations are provided below:

Weakness 1: The House Lacked Sufficient Information With Which To Manage and Maintain Accountability Over Its Property and Equipment

Recommendation 1: In accordance with the property and lease policies recently approved by the Committee on House Oversight, and until the new fixed asset and inventory management system is implemented, a comprehensive inventory should be completed during 1998 of all capitalized assets, operating leases with terms in excess of one year, and capital leases. In addition, ensure compliance with the new procedures by recording property and lease transactions to the proper Budget Object Class codes and by capitalizing assets as of the date the asset is placed in service.

CONCUR.

Office Systems Management (OSM), House Information Resources (HIR), and Telecommunications will complete a physical inventory of all assets that meet the Office of the Chief Administrative Officer's (CAO) capitalization threshold by December 31, 1998. In addition, all 1998 acquisitions in excess of \$2,000 shall be reviewed by December 31, 1998, to ensure proper BOC usage, and modifications to edit the FFS service date fields will be completed by November 1998.

Weakness 5: Deficiencies Exist In Budgeting, Monitoring, And Accounting For Member Allowances

Recommendation 1: Ensure that legislative year 1997 MRAs are properly charged for the 27 Members that have not submitted "District Office Certification of Franked Mail" forms for 1997 as of July 21, 1998, either by obtaining missing district office forms or through CHO-authorized estimation techniques.

CONCUR.

Personal contact has been made to gain additional compliance with the 27 offices in question that reduced this to 26 offices. Based on our recent efforts and subsequent results, we have submitted a request to the Committee on House Oversight to authorize the U.S. Postal Service to estimate charges for those Members' balances still outstanding. We believe we have taken appropriate action to close this recommendation.

Recommendation 2: Perform a cost-benefit analysis to assess the feasibility of requiring Members' district offices to purchase postage meters or USPS Federal Postal Payment Cards as an alternative means of accumulating costs for district office franked mail.

CONCUR.

A cost-benefit analysis assessing the feasibility of mandated postage meters in district offices has been performed and forwarded to the Committee on House Oversight. U.S. Postal Service officials familiar with the House's district office operations do not believe that Payment Cards, designed for large-scale users, will work well in what those officials term the "minimum transaction" environment of district offices. We believe we have taken appropriate action to close this recommendation.

Recommendation 3: Office of Finance should expand the procedures currently used to reconcile aggregate USPS charges and FFS information to include reconciliations of USPS and FFS data at the Member level.

CONCUR.

Postal Operations has put the proper procedures in place that ensure that all obligations, hence payments, have the correct program code for the type of activity, organizational code for the Member, and the correct legislative year for when the activity occurred. Additionally, Postal Operations has put the proper procedures in place that ensure that reconciliation of USPS charges occur at the Member level as well as the aggregate level. We believe this action closes this recommendation.

Weakness 6: The House Did Not Properly Track The Goods And Services It Ordered, Made Erroneous Duplicate Payments, And Frequently Paid Vendors Late

Recommendation 1: Establish and implement policies and procedures to take advantage of FFS functions to ensure duplicate payments are not being erroneously disbursed, include analytical procedures to sort, match, and test for potential duplicate payment transactions in FFS, and ensure that FFS date fields are used consistently.

CONCUR.

The Office of Finance has identified a software application to detect potential duplicates and is moving expeditiously to implement the method by the end of 1998. Additionally, appropriate procedures will be developed to ensure we are also consistently using the FFS date fields following the modification to FFS to make service dates a required entry field as mentioned in our response to Weakness 4, Recommendation 3.

Weakness 8: Access Controls Over The House's New Federal Financial System Need Improvement To Provide Effective Security

Recommendation 1: Establish an FFS application security administration function that is separated from application user functions and from application operations functions.

CONCUR.

The FFS application security administration function will be assigned as a collateral duty to a position separate from the Financial Systems Department. This assignment will be accomplished by October 1, 1998 and will be coordinated with the Office of Inspector General.

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Responses to Prior Audit Recommendations

Weakness 1: The House Lacked Sufficient Information With Which To Manage and Maintain Accountability Over Its Property and Equipment

Recommendation 2: Ensure the new financial management system is capable of accumulating and providing information with respect to property and equipment including:

- cost or value information
- description and acquisition date
- useful life and depreciation method and amount
- scheduled replacement
- location

CONCUR.

OSM and the Office of Finance have ensured that the new fixed assets and inventory system along with the financial management system will be capable of providing information with respect to property and equipment including: cost/value information, asset description, acquisition date, useful life, depreciation method, depreciation amount, and location. The contract award for a new Fixed Asset Management System was signed on August 10, 1998 by the CAO. Included in the contract were requirements that ensured we would be able to track each of the items outlined in this audit recommendation. We believe we have taken appropriate action to close this recommendation.

Recommendation 3: Ensure that the new financial management system is configured to prompt Member offices when payments are being made on equipment over a specified age.

CONCUR.

OSM will select and implement a commercial-off-the-shelf fixed asset management system. The system selected will be configured to prompt Member offices when payments are being made on equipment over a specified age. The contract award for a new Fixed Asset Management System was signed on August 10, 1998 by the CAO. Included in the contract were requirements which ensured the system was capable of generating, via workflow, an automated alert indicating when equipment maintenance costs exceeds the original cost of the asset over a specified age. We believe we have taken appropriate action to close this recommendation.

Recommendation 4: Ensure that transactions relating to a) purchase of equipment; b) lease of equipment; c) maintenance of equipment; and d) purchase of non-

Responses to Prior Audit Recommendations

equipment items such as supplies, training, and other services are properly processed in the correct BOC's, i.e., the correct expense accounts, in FFS.

CONCUR.

The Office of Finance has developed procedures to analyze monthly equipment and lease transactions in FFS during calendar year 1998 to ensure correct BOC and general ledger (GL) usage. A series of meetings with all CAO offices having procurement authority were initiated in July 1998 to review correct BOC usage. Additionally, separate BOC's have been established for equipment and equipment maintenance and will be effective October 1, 1998.

Weakness 2: Poor Controls Over Computers and Data Exposed the House to the Risk of Unauthorized Transactions, Incorrect Data, Misuse of Assets, and Loss of Data and Programs

Recommendation 1: Prohibit programmers from accessing actual data and ensure they have access, in a non-production environment, only to the programs they are responsible for changing.

CONCUR.

HIR developed program change control procedures for some applications and the HIR Security Office currently performs biannually reviews of ACF2 access rules for production libraries and applications. The Office of the CAO has implemented the proper change control procedures developed for all major programming efforts. We believe we have taken appropriate action to close this recommendation.

Recommendation 2: In conjunction with the overall action plan for systems update and integration, improve data entry controls with respect to weaknesses in entering data such as incomplete data for purchasing equipment and a lack of approved vendor codes.

CONCUR.

Office of Finance has updated manuals to reflect appropriate data entry operational policies and procedures that were then used to conduct training for CAO data entry users. Seventy staff completed training on all aspects of FFS data entry. We believe we have taken appropriate action to close this recommendation.

Responses to Prior Audit Recommendations

Recommendation 3: Update user manuals for all of the House's significant systems in any action plan for systems improvement.

CONCUR.

HIR will update the system/user manuals for all major systems that remain after the mainframe migration and Year 2000 efforts are substantially complete.

Recommendation 4: We recommend that the Chief Administrative Officer immediately prepare proposals, for approval by the Committee on House Oversight, to review staff positions to determine the associated level of risk and need for employee security clearances; incorporate security clearance requirements into each staff position description; and implement security clearances as required for Executive Branch employees under FPMR.

CONCUR.

HIR has written an internal security clearance policy to cover HIR employees and is now working with staff from Human Resources (HR) to prepare a proposal for the approval of the Committee on House Oversight to implement the proposed security policy and modify the appropriate Position Descriptions.

Recommendation 5: Implement procedures for the ongoing maintenance of the business impact analysis and business recovery plan as well as comprehensive, routine (e.g., minimum once a year) testing of the plan. Additionally, a full data center "power-down" test should be included in the business recovery plan.

CONCUR.

A contractor has commenced the process of analyzing the business recovery process including the application priority for business continuity planning. A disaster recovery plan and testing process will be developed by HIR to incorporate the information identified within the recommendation.

Recommendation 6: Establish the following controls to improve House Information Resources' management and implementation of ACF2 security:

- Implement ACF2 over all online mainframe applications, including FMS;
- Remove the online access to the CICS password file;
- Administer all passwords through ACF2;

Responses to Prior Audit Recommendations

- Justify the need for all special ACF2 access privileges;
- Limit the "Non-Cncl" privilege to only those users who require access;
- Create an ACF2 emergency logon ID for occasions that require sensitive access;
- Record and review detail activities during use of emergency logon IDs;
- Remove the Account privilege for divisional security administrators; and
- Review and restrict, where appropriate, ACF2 access privileges to production libraries.

CONCUR.

HIR is working to complete the ACF2 migration review to determine which systems are critical to access through ACF2. Upon completion of this review, HIR will then migrate the identified systems. Based upon current Y2K and mainframe migration applications timelines, ACF2 control of the remaining applications are targeted to be completed by the end of 1998.

Recommendation 7: We recommend that the Chief Administrative Officer prepare proposals, for approval by the Committee on House Oversight, to develop and implement chargeback rates that reflect current processing costs.

CONCUR.

HIR is in the process of collecting cost and usage data to analyze the resources used by internal and external customers relative to the mainframe. HIR will use the cost and usage data to construct chargeback costs that are fair to our customers and enable HIR to recover the cost of the resources provided. A proposal containing a recommendation based on the findings will be submitted to the Committee on House Oversight.

Recommendation 8: We recommend that the Chief Administrative Officer prepare proposals, for approval by the Committee on House Oversight, to establish policies and detailed procedures covering the maintenance, administration, and documentation of equitable chargeback rates and billing processes for internal and external customers.

CONCUR.

Using the results from Recommendation 7 above, HIR will document and propose policies for the approval by the Committee on House Oversight which will ensure the continuing reality, fairness, and adequacy of the proposed rates for mainframe use and support on an annual basis.

Responses to Prior Audit Recommendations

Recommendation 9: Review the overall HIR management structure to ensure that all major projects are properly planned, organized and coordinated effectively, and approved by the CHO.

CONCUR.

HIR has developed a complete reorganization plan that provides for sound project management and coordination. The plan was approved by the CHO on July 30, 1998. We believe we have taken appropriate action to close this recommendation.

Recommendation 10: Develop and provide training for Directors and technical staff in order to implement the newly developed project management policies and procedures.

CONCUR.

HIR conducted preliminary project management training during 1998. Based on the recent approval of the HIR reorganization by the Committee House Oversight, formal training in project management policies and procedures will be offered to appropriate personnel. This training should be completed by September 30, 1998.

Recommendation 11: Adopt an implementation plan that balances the need for an aggressive timeline with user needs, and hardware, software, personnel and budget requirements.

CONCUR.

HIR has recently formed a mainframe migration team that will validate recommendations from Price Waterhouse's "Mainframe Migration Options Study", select an implementation plan, and prepare contingency plans and budget requirements. The migration is tentatively scheduled to occur in the third quarter of fiscal year 1999.

Recommendation 12: We recommend that the Chief Administrative Officer direct the Associate Administrator, HIR to develop a detailed HIR strategic and operational plan based on the ISPP vision. These plans should project future issues on a three-year basis and should be updated annually.

CONCUR.

The Office of the CAO has developed a five-year strategic plan that encompasses all CAO operational units including HIR. This plan will be used by the Office of the CAO to project

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future issues on a five-year basis and will be updated annually. We believe we have taken appropriate action to close this recommendation.

- Recommendation 13:** Formalize a plan for developing and/or revising policies, standards, procedures, and guidelines that include the following actions:
- a. formalize a listing of the minimum policies that HIR will initially schedule for development along with timelines, delegations of responsibility, and submit it to the CHO, through the CAO, for approval.
 - b. focus the initial policy development on HIR issues and overall standardization of system policies across the House.
 - c. revise and update the existing standards, procedures, and guidelines as they correspond to the existing and new policies.
 - d. formalize the approval and comment process for policies.

CONCUR.

HIR is finalizing a plan for the development and/or revision of HIR policies, standards, procedures, and guidelines which addresses each of the items identified in this recommendation.

- Recommendation 14:** Establish and maintain a central repository in HIR for all approved information systems policies, standards, procedures and guidelines.

CONCUR.

HIR has recently hired a Planning Manager who will be responsible for developing a central repository of all HIR policies, standards, procedures, and guidelines. This project will be completed by the end of August, 1998.

- Recommendation 15:** We recommend that the Chief Administrative Officer develop procedures that limit access authority to J010 and J020 transactions to authorized personnel only.

CONCUR.

OSM has verified that only individuals whose official position entails the need to have access to screens J010 and J020 has been granted the access level of 3. OSM has also formulated and implemented operating procedures that are now used to limit the access authority to J010 and J020 transactions to authorized personnel only. We believe we have taken appropriate action to close this recommendation.

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Recommendation 16: We recommend that the Chief Administrative Officer develop monitoring procedures that require continuous review of password-protected transactions and require follow-up and documented review of activity against such transactions.

CONCUR.

OSM has developed appropriate monitoring procedures to serve as a guideline in this review process that addresses issues such as the frequency of the review and items that need to be reviewed. A manual log has also been developed to serve as supporting documentation that confirms the performance of the review process. Finally, OSM will now record exceptions discovered during the review and will further investigate the exceptions. We believe we have taken appropriate action to close this recommendation.

Recommendation 17: We recommend that the Chief Administrative Officer review and update employee information via transaction J020 on a periodic basis and verify employee access levels for each RIC and mainframe application screen they can access.

CONCUR.

OSM has completed the development and testing for screen J030 and put this screen into operation. In addition, audit tests will be performed to confirm that screen J030 is effective in the review and update process of employees' access level information. Finally, a log of the review and update process is now kept as evidence of the implementation of the recommended procedures. We believe we have taken appropriate action to close this recommendation.

Recommendation 18: We recommend that the Chief Administrative Officer require HIR personnel be restricted from making changes to the inventory production system without appropriate testing and authorized documentation from designated OSM management.

CONCUR.

OSM has incorporated a newly developed procedure into its operating policies and disseminated this information to HIR and OSM employees. To ensure the compliance of the procedure, subsequent testing regarding future changes in the system will be carried out by OSM to validate that the procedure is operating as expected. A procedure has also been developed to ensure that HIR logs and notifies OSM of any changes made to the system. We believe we have taken appropriate action to close this recommendation.

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- Recommendation 19:** We recommend that the CAO establish formal project management controls and techniques as follows:
- a. Define the role of the Year 2000 project leader and establish it as a full-time position.
 - b. Prepare a Year 2000 charter which formally assigns the authority and responsibilities for the Year 2000 initiative to the project leader and staff within HIR, and defines the project leader roles and responsibilities with respect to organizations/activities outside HIR whose systems may be affected by the Year 2000 problem.
 - c. Institute a status reporting mechanism to inform upper management of Year 2000 progress.
 - d. Conduct a detailed level of effort analysis which estimates the resources needed to complete the initiative.
 - e. Purchase software tools and secure a contractor, as necessary, to assist with conversions and testing.
 - f. Determine whether all systems are needed and on which platform they will reside.
 - g. Attend the CIO Council Subcommittee on Year 2000, as appropriate.

CONCUR.

Based on compilation and review of the activity against the individual items identified in this finding, HIR considers that all items have been addressed and should be closed. Detailed descriptions of status and activity for this finding and other IG issues related to Y2K program management are continuously reviewed and made available in the Y2K Program Plan submitted to the CAO and the Committee on House Oversight on a quarterly basis. We believe we have taken appropriate action to close this recommendation.

- Recommendation 20:** We recommend that the CAO revise and prepare follow-on document(s) to the Year 2000 plan that includes the following activities.
- a. Prepare a schedule of Year 2000 tasks (e.g., PERT chart concept) showing milestones and interdependencies of issues/organizations.
 - b. As necessary, re-prioritize and accelerate out-year projects in the Year 2000 plan to meet remaining government milestones.
 - c. Develop detailed implementation plans for each system to be converted.
 - d. Expeditiously develop a follow-on document to the Year 2000 plan that addresses, in detail, the last three phases of the Year 2000 effort for review and approval by the CHO.

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- e. In preparing the follow-on document, as recommended in 2.d. above, develop testing strategies, plans, milestones, and ensure testing capacity is available, and quality assurance is an integral element.

CONCUR.

Items A through D have been properly addressed and closed by the Office of the CAO. For item E, HIR is preparing a schedule of Year 2000 tasks showing milestones and interdependencies, developing testing strategies, plans, and milestones, re-prioritizing and accelerating out-year projects in the Year 2000 plan to meet remaining government milestones, developing detailed implementation plans for each system converted, and developing and submitting to the Committee on House Oversight a Year 2000 follow-on document that addresses the last three phases of the Year 2000 effort.

Recommendation 21: As necessary, revise the Year 2000 cost estimates and prepare revised budget requests based on new figures.

CONCUR.

In June, 1998, HIR completed the Year 2000 project plan update including a revised cost estimate for the entire Year 2000 project and incorporated Year 2000 project figures in HIR's 1999 reprogramming requests. We believe we have taken appropriate actions to close this recommendation.

Recommendation 22: Coordinate data exchange issues with the external organizations that interact with the House's systems.

CONCUR.

HIR will continue to coordinate with the Legislative branch throughout the Year 2000 compliance efforts. An inventory of the files that are exchanged with these outside organizations has been compiled, items on this inventory are being monitored, and a dialog with the outside organizations will be maintained. Documentation on these outside organization items included on this inventory will be published in September 1998.

Recommendation 23: Expedite decisions regarding OSM and FMS Payroll replacement efforts, closely monitor these activities to ensure timely completion, and prepare contingency plans, as necessary.

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CONCUR.

Project managers currently closely monitor OSM and FMS Payroll replacement activities to ensure timely completion and have developed appropriate contingency plans. We believe we have taken appropriate action to close this recommendation.

Weakness 3: Payroll Systems Are Obsolete And Need To Be Replaced

Recommendation 1: We recommend that the CAO develop proposals, for approval by the Committee on House Oversight, to do away with the "real-time" payroll and institute a lag between the end of the pay period and the date the payroll is processed and paychecks are distributed.

CONCUR.

The Office of the CAO will continue with its feasibility and development work on the issue, taking into consideration this recommendation as part of the selection of a replacement Human Resources payroll capability. Once the replacement solution has been identified, HR will make a specific recommendation to the appropriate House decision-makers to institute a lag between the end of the pay period and the date payroll is processed.

Recommendation 2: Replace current House payroll and human resources systems for Officers' employees, ensuring that requirements to control and account for annual leave are met by the systems and new procedures that are prepared for those systems. In addition, use the financial information to monitor and manage the cost to the House for annual leave.

CONCUR.

The Office of the CAO will continue with its feasibility and development work on the issue, taking into consideration this recommendation as part of the selection of a replacement Human Resources payroll capability. Once the replacement has been identified, HR will work to ensure that requirements and procedures to control and account for annual leave are met by the replacement solution. In addition, HR will use the financial information to monitor and manage the cost to the House for annual leave.

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Weakness 4: Financial Management Continues To Be Hampered By Inadequate Systems, Resources, And Procedures

Recommendation 1: Complete the implementation of the core FFS components, and develop work plans and procedures to accurately and completely reconcile transactions processed by FFS to the U.S. Treasury on a monthly basis.

CONCUR.

The Office of Finance Office has reviewed the feasibility and frequency of obligating and/or accruing payroll and lease accounting transactions for all Member offices. Based on this review, the Office of Finance will start to obligate payroll and leases for all Members no later than October 31, 1998.

Also, 1999 funds have been approved for an analysis to define House Offices financial management requirements that will be the basis for a replacement of the Federal Financial System (FFS). Funding for a replacement system has been requested in the FY 2000 strategic plan for this project. We believe we have taken appropriate action to close this recommendation.

Recommendation 2: Eliminate the practice of holding accounting periods open for indefinite periods of time. Work plans and procedures should be developed to close out each month in a timely manner.

CONCUR.

The Office of Finance has developed written and automated procedures to ensure we close out each month in a timely manner. We believe that we have taken appropriate actions to close this recommendation.

Recommendation 3: Review existing system requirements to ensure that all required fields within FFS are completed and edited by the system or FFS users whenever possible, before the transactions are accepted by FFS. This would include the use of service dates.

CONCUR.

The Office of Finance has given the vendor approval to make service dates a required entry field. This modification should be accomplished by November, 1998, at which time we will request the Office of Inspector General's validation to move into production.

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Weakness 5: Deficiencies In Budgeting, Monitoring, And Accounting For Member Allowances Increased The Risk Of Overspending And Impaired Accountability, And Put House At Risk Of Overspending Appropriations

Recommendation 4: Provide information to Members, committees, and House Officers on how much money they have spent versus what they were budgeted.

CONCUR.

As stated in Weakness 4, Recommendation 1, the Office of Finance Office has reviewed the feasibility and frequency of obligating and/or accruing payroll and lease accounting transactions for all Member offices. Based on this review, the Office of Finance will start to obligate payroll and leases for all Members no later than October 31, 1998.

Weakness 6: The House Did Not Properly Track The Goods And Services It Ordered, Made Erroneous Duplicate Payments, And Frequently Paid Vendors Late

Recommendation 2: Initiate a system of accounting and control that captures data and tracks transactions by vendor and by ordering office when goods and services are ordered, received, and paid.

CONCUR.

Procurement Desktop (PD) will be used to initiate all CAO-processed purchases using standard forms for requisitions (purchase requests) and purchase orders (awards). PD will also be used for receipt of goods. Receipt of goods data will be pulled from the PD purchase order. Data from the PD receipt of goods document will then be transferred to the Fixed Assets/Inventory Management System currently being purchased.

The Fixed Assets/Inventory Management System general ledgers will calculate depreciation of assets and summary data from those calculations will be supplied to FFS. Payments can be made directly in FFS or through the payment module of the Fixed Assets/Inventory Management System. Vendor data will be shared by all three systems. Our target date for closure is dependent on the Fixed Assets/Inventory Management System being deployed by October 31, 1999.

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Recommendation 3: In conjunction with acquiring a new financial management system, ensure it has the capability to:

- compare orders against the available budget by office
- prompt offices when orders have not been received or when bills have not been paid after a specified period of time.

CONCUR.

Verification of fund availability is currently being done. With PD, there will be an automated check of FFS for fund availability at the point of requisition and again at the point of purchase order (obligation) approval. PD is scheduled for implementation in HIR in August 1998, with full implementation in CAO offices to be completed in 1999.

PD will also capture receipt of goods data and pass this information to the new Asset Management system. Finally, notification of delinquent payments will originate in either the new Asset Management System or FFS.

Weakness 7: Reconciliations Of Total Obligations Generated By Each Entity To Those Recorded In FFS Are Not Performed

Recommendation 1: Develop and implement standard procedures for all service providers requiring formal reconciliations between obligations established in the service provider systems with those recorded by FFS. These monthly reconciliations should be reviewed and approved and forwarded to Office of Finance.

CONCUR.

In May 1998, service providers began receiving a monthly report of outstanding unliquidated obligations. They are currently reviewing this report to validate all unliquidated obligations and specific action is required for those over 180 days. Organizations are deobligating amounts no longer valid. The Office of Finance is assisting service providers with the reconciliation of valid obligations recorded in FFS and their subsystems. Initial reconciliation reports are due to the Office of Finance for review and analysis by September 1998.

Weakness 8: Access Controls Over The House's New Federal Financial System Need Improvement To Provide Effective Security

Recommendation 2: Develop and implement management policies and procedures to ensure that managers/supervisors assign user ids and restrict assignments for both

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pass one and two, limit VEND table access, and require user access forms to be prepared for access.

CONCUR.

User access is being granted only to personnel with a business reason to have access. A semi-annual re-certification process is now conducted to assure that staff with FFS access continue to be employed in the same capacity and by the current organization. A procedure is also in place to require that all requests for access be completed on a request form and properly authorized by the individual's supervisor and the FFS Security Administrator. These procedures were completed on July 31, 1998. Additionally, a project is also under way to restrict VEND table access. We believe we have taken appropriate action to close this recommendation.

- Recommendation 3:** Approve the FFS Security Administrator Policies and Procedures Manual after the following additional procedures to enhance controls are added:
- provide oversight over the proper implementation of the management policies and procedures identified in Recommendation 1.
 - perform a review at least every 90 days to determine the existence of obsolete or inactive login IDs. Based on this review, follow up with user management to determine whether access is still required. User IDs no longer requiring access should be eliminated.
 - identify specific roles and responsibilities WASC provides in maintaining FFS security.

CONCUR.

The FFS Security Administrator oversees the implementation of policies and procedures and is involved in all new user ID approvals. The FFS Security Administrator has also identified the specific roles and responsibilities the WASC provides in maintaining FFS Security. These procedures are a part of the revised FFS Security Manual that was completed on July 31, 1998. Finally, a review is performed on an ongoing basis to determine the inactivity of users on the FFS. We believe we have taken appropriate action to close this recommendation.

- Recommendation 4:** Require security administrators to obtain appropriate security clearances.

CONCUR.

All employees of the CAO routinely have a National Agency Check (NAC) performed when they are hired. Based on the fact that there is no requirement to have a security clearance for persons who do not routinely handle classified information in executive or legislative agencies, the NAC shall be considered appropriate for personnel that handle House Financial Information

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including the security administrator. We believe we have taken appropriate actions to close this recommendation.

Recommendation 5: Correct the functionality of the FFS audit log and use it to perform security monitoring.

CONCUR:

A number of monitoring reports are available and are used by the WASC and the FFS Security Administrator to review and monitor FFS operations and access. These reports and the way in which they contribute to the monitoring of FFS system access are part of the revised FFS Security Manual that was completed on July 31, 1998. We believe we have taken appropriate actions to close this recommendation.